Missouri Consolidated Health Care Plan

A Component Unit of the State of Missouri

2008 Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2008

CHANGING LIVES

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MISSOURI CONSOLIDATED HEALTH CARE PLAN

832 Weathered Rock Court, PO Box 104355
Jefferson City, MO 65110-4355

800-701-8881
www.mchcp.org

Missouri Consolidated Health Care Plan
A Component Unit of the State of Missouri

2008 Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2008

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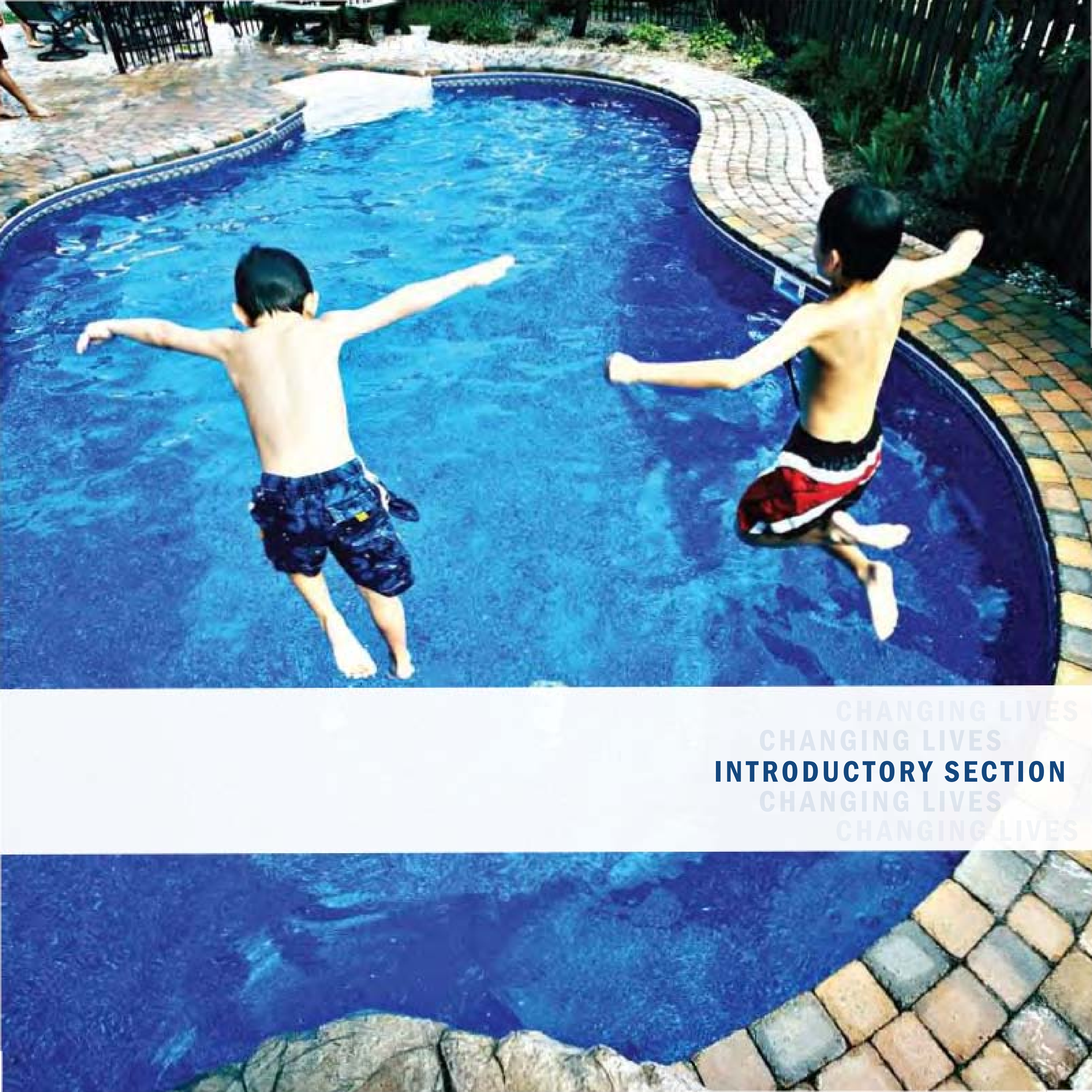

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INTRODUCTORY SECTION

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LETTER FROM THE EXECUTIVE DIRECTOR

832 Weathered Rock Court
PO Box 104355
Jefferson City, MO 65110
Ph: 800-701-8881

www.mchcp.org

Ron Meyer
Executive Director

December 5, 2008

It is with great pleasure that I submit the annual report of the Missouri Consolidated Health Care Plan (MCHCP) for the period ended June 30, 2008. MCHCP is a component unit of the State of Missouri for financial reporting purposes and as such, the financial reports are also included in the State of Missouri Comprehensive Annual Financial Report. The financial information presented in this report is the responsibility of the management of MCHCP and sufficient internal accounting controls exist to provide a reasonable assurance regarding safekeeping of assets and fair presentation of the financial statements, supporting schedules and statistical tables. The report is also designed to comply with the provisions of section 103.025 of the Revised Statutes of Missouri (RSMo) as amended.

With over 105,000 reasons to offer enhanced benefits and maintain our mission, the MCHCP remains committed to providing our membership with comprehensive and affordable employer sponsored health coverage.

> "Employers are the principal source of health insurance in the United States, providing health benefits for about 158.5 million people, or about 54% of all Americans; however, the percentage of employers who offer such benefits has been falling; 69 percent offered health coverage benefits in 2000, compared to 60 percent in 2007."[1]

Nationally, large employer groups such as the MCHCP must continue in these turbulent economic times to pursue innovative ways to withstand rising costs while offering affordable premiums to our members. Our theme for our FY2008 report is Changing Lives. We are proudest to say that our Disease Management and Wellness programs are doing just that! During 2008, the MCHCP invested over $5.5 million in chronic disease management and wellness initiatives to foster improved employee health with efforts in member education and medical management. Investments in these programs are often multi-year approaches and can take years to present returns on investment. However studies show that our recent efforts are already returning positive results – for every $1 spent in disease management, the Plan is realizing nearly $6 in reduced claims expenditures. The wellness program likewise is showing a positive return of approximately 2:1.

The MCHCP also remains committed to effective plan management. During 2008, staff from the MCHCP, MOSERS, and the Office of Administration were recognized and mentioned honorably with the Governor's Award for Quality and Productivity for their joint efforts in streamlining employee benefit enrollment. The Statewide Enrollment Benefit System (SEBES) was developed to allow for a one stop web portal for new employee enrollment. Improved functionality and concise information for ease of enrollment is the showcase of this workplace tool.

[1] *Kaiser Family Foundation; www.kff.org; Cost/Insurance Quick Takes; December 2008*

Fiscal year 2008 marked the first year of financial statement presentation for the State Retiree Welfare Benefit Trust (SRWBT). The trust was organized in June 2008 and is responsible for the safekeeping of assets for the exclusive benefit of current and future retired employees of the State. The SRWBT is considered an agent multiple employer plan and is administered by Plan staff under the direction of the MCHCP Board of Trustees. Additional information regarding the SRWBT is available in the financial section of the report.

Ron Meyer
Executive Director

Revenues for the year totaled over $474 million for both the Plan and the SRWBT with approximately $10 million attributable to our non state public membership. However, fund reserve capacity for the Plan will need close monitoring as available funding continues to decrease. Additional financial information can be found in the management discussion and analysis and financial statements included in this report.

For the thirteenth year in a row, the MCHCP was pleased to receive the Government Finance Officers Association of the United States and Canada (GFOA) Certificate of Achievement for Excellence in Financial Reporting for its comprehensive annual financial report for the year ended June 30, 2007. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to qualify, a government unit must publish a report conforming to all GFOA standards. The Certificate of Achievement is valid for a period of one year only. The MCHCP will continue to strive for such recognition with its submission of our current report for consideration to GFOA.

The report is a product of the combined efforts of the MCHCP staff and the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, for determining compliance with legal provisions and for evaluating the condition of the fund. MCHCP has received an unqualified opinion from our independent auditors whose report can be found on page 22.

This report is provided to the Governor, the State Auditor, members of the General Assembly, all state agencies, and all participating public entities. The cooperation and support of all these individuals and agencies help contribute to our success. Also, for the Board of Trustees, I would like to express sincere gratitude to the staff and advisors who have worked so diligently to assure the success of the Missouri Consolidated Health Care Plan during this past year.

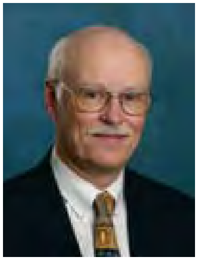
Finally, on a personal note, I will be retiring as of February 1, 2009. It has been an honor to serve our members as the director of the health care plan for over 21 years – beginning at MOSERS in 1987 and then with the MCHCP starting in 1993. During that time I have had the pleasure to meet and work with many great people both inside and outside of state government. Their many contributions have been of great value to the development of the MCHCP. However, I particularly want to thank the staff at MCHCP for their continuous hard work and dedication, without which our organization could not have grown and prospered as it has over these many years. Most notably though, I want to thank them for their friendship – I wish you all the very best.

Sincerely,

Ron Meyer

Ron Meyer
Executive Director

THE STAFF



Henry Curran
Associate Executive Director

Executive

Responsible for maintaining knowledge of health care trends and how they may impact the MCHCP; manages the research and data analysis section; coordinating the development, evaluation and award of Requests for Proposal (RFPs) and new products; assists in the negotiation and execution of contracts; follows applicable new state and federal regulations to ensure MCHCP's compliance; and assists the Director in daily management of the organization.

Susan Hilkemeyer
Assistant Executive Director for Consumer Affairs

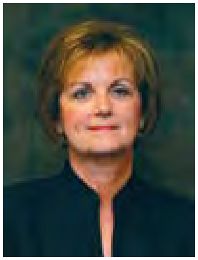
Consumer Affairs

Recognizes the need to function as a consistent member advocate for state employees as well as public entity employees. Ensures that the mission of MCHCP is achieved by overseeing all aspects of member related operations across several departments. Oversees the Directors of Marketing, Customer Support, and Member Records who have responsibility for the daily management and execution of departmental goals.

Jan Jackson
Chief Counsel

Chief Counsel & Internal Audit

Chief Counsel represents and advises the Board of Trustees and MCHCP. She prepares, interprets, and analyzes legislation, rules, policies, and legal documents, including all contracts and trust agreements. Chief Counsel also serves as Privacy Officer to ensure MCHCP's and its contractors' compliance with HIPAA, and supervises the Internal Audit section. The Internal Audit section consists of an Internal Auditor and two Audit Technicians. Internal Audit is responsible for mitigating risk of loss from error, waste and misconduct and ensuring the use of sound business practices throughout the organization.



Linda Grotewiel, RN
Director of Clinical Review

Clinical Review

Clinical review serves as a liaison between members and the contracted providers to assist on a wide range of medical and pharmacy issues and interpretation of the benefits; reviews and assists with member appeals; oversees the wellness and disease management programs and evaluates the performance of the contracted vendors; and develops and administers guidelines and direction for compliance with medical care protocols and appropriate reimbursement.

Lorraine Mixon-Page, SPHR
Director of Human Resources

Human Resources

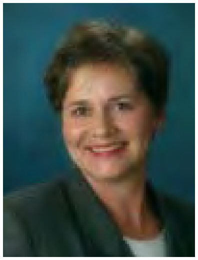
The Human Resources Director oversees all aspects of the MCHCP personnel program and develops and deploys new employee programs as needed. As the Chief HR professional, the Director takes a lead role with all workforce issues as well as workforce planning, spearheading initiatives to better develop and retain the employees of MCHCP. In general, the Human Resources section works closely with department representatives on processes related to interviewing, selection, training/development, and discipline of employees while ensuring that accurate and timely job descriptions are present in the classification plan. The section handles wage and hour issues, worker's compensation reporting, and compliance with all federal, state and local personnel laws. Additionally, the HR Director is charged with ensuring fair and equitable treatment of all employees and candidates for employment, establishing and maintaining a fair compensation system, managing the performance management process, as well as writing and interpreting the MCHCP personnel policies and procedures.

David Kirchhoff
Director of Member Records

Member Records

The Member Records section is staffed by 9 membership technicians, two Team Leaders and a supervisor. This section is responsible for maintaining all enrollment records for eligible members and for any changes to their coverage. They also administer coverage for retirees, survivors, members on leave of absence, those eligible for long-term disability, vested members who leave employment and COBRA coverage under Federal guidelines. The section is also responsible for insuring that public entity contributions, state contributions and member contributions are appropriately applied to members' accounts.

THE STAFF



Grace Rogers
Director of Customer Support

Customer Support

Customer Support is divided into two sections - Customer Relations and Communications. Customer Relations is comprised of nine Benefit Counselors, a receptionist, an Assistant Supervisor and the Call Center Coordinator. This section is responsible for resolving problems and answering questions regarding benefits and eligibility for members of MCHCP. The Communications section consists of four Communication Specialists, a Publication & Communication Specialist, two Communication Assistants and a Graphic Designer. Communications is responsible for educational and informational materials provided to members. This section conducts educational meetings throughout the state for open enrollment, new employee orientation, active employee and pre-retirement seminars and payroll/personnel workshops. Communication Specialists also function as account representatives to the individual state agencies and participating public entities. This department serves as a liaison between members, payroll/personnel representatives and the contracted insurance providers for MCHCP. Ultimately, Customer Support is responsible for customer service and customer satisfaction.

Alan Bailey
Director of Marketing

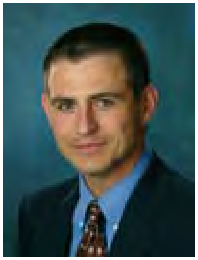
Marketing

The Marketing section is responsible for informing and communicating with Missouri local governments about the health insurance plans available through the MCHCP. Staff provides numerous opportunities for eligible local governments to consider participating in the plans offered through the MCHCP. These opportunities include but are not limited to personal meetings, printed materials, audio and visual presentations. MCHCP also uses the services of contracted brokers who are trained by the marketing staff. There are currently five people in this section who are specialists in marketing, health insurance, risk management and administration.

Stacia G. Fischer
Chief Fiscal Officer, CGFM

Fiscal Affairs

The Fiscal Affairs section is responsible for all financial statements and records of the programs administered by MCHCP, including preparation of the Comprehensive Annual Financial Report (CAFR). Fiscal Affairs performs all purchasing functions for MCHCP, coordinates banking services, interfaces with the Office of Administration, accounting and budgeting departments, various payroll/personnel officers of state departments, accounting offices of health maintenance organizations, consultants, actuaries, banks and the IRS. The Fiscal Affairs section is staffed by six individuals with specialties in Accounting and Business Administration.



Bruce R. Lowe
Director of Information Technology Services

Information Technology Services

The Information Technology Services department is responsible for meeting the technology needs of all operations throughout the MCHCP. From internal operation controls to external public access, IT services ensure all data is handled in accordance with established government guidelines and regulations; sensitive to sound business practices, and proven industry standards.

The ITS department now includes the Receiving Services section that is responsible for all mail room activities, shipping and receiving, building maintenance and fleet management. The primary goal of this section is to continue to provide timely, accurate, and secure mail delivery to MCHCP members.

The ITS Technology section consists of specialists and analysts responsible for improving member quality of service by enhancing strategic partnerships, data exchange, internal process efficiency, information awareness, and web based applications. The primary goal of this section is the continued availability and integrity of all data processes in support of day to day operations and long term goals.

While always focused on information security and operational continuity, this section continues looking toward new technology based solutions and leveraging current resources to improve operational efficiency, communications, and overall member value. As always, we strive to bring the highest level of professionalism and service to all of our customers, both internal and external.

PROFESSIONAL SERVICES

Auditors
Williams Keepers LLC
Heidi A. Chick, C.P.A.

Banking
Central Trust Bank
David Meyer, C.P.A.

Consulting
Watson Wyatt Worldwide
Steve Korbecki
Jim McCready
Sherri Potter
PricewaterhouseCoopers L.L.P.
Sandi Hunt
Peter Davidson

Dental Program
Delta Dental

Employee Assistance Program
Magellan Health Services

Disease Management Program
CareAllies

Health Maintenance Organization (HMO)
Coventry Health Care of Kansas
Mercy Health Plans
Premier Health Plans

Pharmacy Benefit Manager
Express Scripts, Inc.

Preferred Provider Organization (PPO)
Coventry Health Care
Mercy Health Plans
Premier Health Plans

Point of Service (POS)
Mercy Health Plans
Premier Health Plans

Vision Program
Vision Service Plan

Wellness Program
Gordian Health Solutions, Inc.

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LETTER FROM THE CHAIRMAN

832 Weathered Rock Court
PO Box 104355
Jefferson City, MO 65110
Ph: 800-701-8881

M·C·H·C·P

www.mchcp.org

Patrick A. Naeger
Chairman, Board of Trustees

December 5, 2008

It is my distinct privilege and honor to present to you, on behalf of the Board of Trustees, the Comprehensive Annual Financial Report for the Missouri Consolidated Health Care Plan (MCHCP) for the period ending June 30, 2008.

While 2008 has brought many success stories in the administration of your health plan it is not been without challenges. Our goal has, and always will be to give you, our members, the best benefit package possible. In doing so, we deliver it in a fiscally prudent manner which lends to years of sustainable growth. All the while, ensuring we have considerable reserves in order to continue a strong financial position for many years to come.

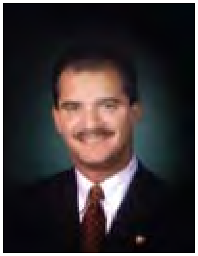
As you are aware, this is a challenging economy and health care doesn't take a back seat. That is why we are committed, more then ever, in making every dollar count. I am happy to report, that in FY 2008, administrative expenses for the MCHCP were less than 2% of total plan expenditures. Obviously, this is a benchmark we are proud of because keeping administrative cost down means more dollars available for your benefits. This would not be possible without the commitment and dedication of the MCHCP staff, who I would argue are some of the best and brightest around.

Also in 2008, MCHCP was honorably mentioned for the Governor's Award for Quality and Productivity for its work with the Statewide Employee Benefit Enrollment System (SEBES) in the Process Improvement category. The SEBES project created a one stop portal for new employees to access all facets of enrollment options for the State's comprehensive benefit package. MCHCP currently hosts the system and coordinated with MOSERS on the initial programming. The end result is faster and more efficient enrollment and consistent presentation of benefits for employees to better understand their benefits.

As you are aware MCHCP is very dependent on appropriations from the General Assembly and their commitment is critical. During FY2008, the Plan received $345.7M in contributions from the State. Of this amount, approximately $276.9M was directed to our active employee members and $68.8M was directed toward retiree health costs and other post employment benefits (OPEB). However, appropriations were down considerably from fiscal year 2007 by over $16 million, leaving your Board with the challenge of maintaining the generous benefit plan that our members have grown accustomed to without cost shifting to the members.

Historically, the State had allowed funding of employee benefits to be established as an estimated appropriation to accommodate fluctuations in employee funding sources. The estimated status was removed by the General Assembly for FY2008 resulting in

the inability of the State to fully transfer the fiscal year appropriation to the Plan. Unfortunately, the loss of estimated appropriation status resulted in approximately $5.5M in state appropriations withheld from the Plan. Consequently, for the first time since the inception of MCHCP we have to submit a supplemental budget request to the General Assembly to recover this critical funding.



Patrick A. Naeger
Chairman
Board of Trustees

As we look to the year ahead with tight budgets anticipated, we will work closely with the legislature, earning their confidence to ensure that we have the support we need to keep your health care cost down. This partnership is vital as we navigate the rough waters ahead as we continue to pursue creative methods to maximize health savings while offering Plan options that provide quality and value to our members.

On a personal note, I would like to take this opportunity to pay tribute and give thanks to a man who not only chaired this board but gave so much of his time, energy and talent to this organization. We lost our dear friend Mike Keathley this past year. Not only did we lose a friend, but we lost a great champion for what it is we do......serve our members. We will always remember Mike for his passion to serve and to give back far more then he ever received. To his wife Julie, and sons Mason and Peyton, thank you for sharing him with us. We miss him!

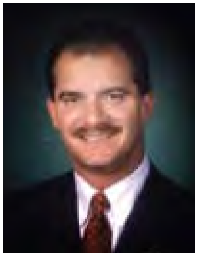
On behalf of the Board of Trustees, we thank our staff and many others who have partnered with us this past year. As always, the Board welcomes your comments and suggestions, helping to improve the future of your health plan, MCHCP.

Sincerely,

Patrick A. Naeger

Patrick A. Naeger
Chairman
Board of Trustees

BOARD OF TRUSTEES



CHAIRMAN
Patrick A. Naeger

Perryville

Governor
Appointed Member

Committees:
Audit †, Executive †

VICE-CHAIRPERSON
Roslyn Morgan

Probation and Parole, St. Louis

Governor
Appointed Member

Committees:
Appeals, Audit, Budget

Mike Keathley

Commissioner, Office of Administration, Jefferson City

Ex Officio Member

Committees:
Budget †, Executive, Investment †

Jane Drummond

Director, Department of Health and Senior Services, Jefferson City

Ex Officio Member

Committees:
Appeals, Personnel †

Senator
Ryan McKenna

Missouri Senate, Crystal City

Appointed by the President Pro Tem of the Senate

Committees: Executive

A. Stephen Coburn

St. Louis

Governor
Appointed Member

Committees:
Audit, Investment, Personnel

Doug Ommen

Director, Department of Insurance, Financial Institutions & Professional Registration, Jefferson City

Ex Officio Member

Committees: Executive †, Investment

Representative
Sam Page M.D.

Missouri House of Representatives, Creve Coeur

Appointed by the Speaker of the House

Committees: Budget

Representative
Rob Schaaf, M.D.

Missouri House of Representatives, St. Joseph

Appointed by the Speaker of the House

Committees: Executive

Senator
Delbert Scott

Missouri Senate, Lowry City

Appointed by the President Pro Tem of the Senate

Committees: Budget

Garry Taylor

Retired, Jefferson City

Governor
Appointed Member

Committees:
Audit, Investment

Sarah Schuette

Department of Economic Development, Jefferson City

Governor
Appointed Member

Committees:
Appeals †, Personnel

The Board currently has one vacancy which is a Governor Appointed, non-member of the Plan.

† Denotes committee chairperson

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Missouri Consolidated Health Care Plan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Clive S. Cox

President

Jeffrey R. Esser

Executive Director

SUMMARY OF PLAN PROVISIONS

Established January 1, 1994, the Missouri Consolidated Health Care Plan (MCHCP), is governed by the statutes of the State of Missouri.

Purpose

MCHCP was created to provide health care benefits to active employees, retired, terminated-vested, long-term disability, surviving subscribers of the State and their dependents and to eligible Missouri public entity employers. Currently, MCHCP administers medical benefits and an Employee Assistance Program (EAP) for eligible members of the Missouri State Employees' Retirement System (except employees of the Department of Conservation, Department of Transportation (MoDOT), Highway Patrol and State Colleges and Universities), members of the Judicial Retirement Plan, legislators, statewide elected officials and certain members of the Public School Retirement System, and enrolled Missouri public entities. In addition, dental and vision benefits are available to State employees including the Department of Conservation, MoDOT and Highway Patrol. MCHCP is a nonprofit entity which has the responsibility of administering the law in accordance with the expressed intent of the General Assembly and bears a fiduciary obligation to the State of Missouri, the taxpayers and its members.

Administration

This is a summary of the provisions of the Revised Statutes of Missouri (RSMo), as amended, that govern the program which MCHCP administers. It does not amend or overrule any applicable statute or administrative rule and, in the event of a conflict, the applicable statute or rule would apply. The statutes provide that the administration of MCHCP be vested in a thirteen (13) member Board of Trustees. The Board is comprised of:

The Director of the Department of Health and Senior Services, serving ex officio

The Director of the Department of Insurance, Financial Institutions and Professional Registration serving ex officio

The Commissioner of the State Office of Administration, serving ex officio

Two members of the Senate, appointed by the President Pro Tem of the Senate
Two members of the House of Representatives, appointed by the Speaker of the House of Representatives

Six members appointed by the Governor with the advice and consent of the Senate. Of the six members appointed by the Governor, three shall be citizens of the state of Missouri who are not members of the plan, but who are familiar with medical issues. The remaining three members of the Board shall be members of the Plan.

The management of MCHCP is the responsibility of the Executive Director who is appointed by the Board of Trustees and serves at its pleasure.

The Executive Director acts as advisor to the Board on all matters pertaining to the Plan and, with the approval of the Board, contracts for professional services and employs the staff needed to operate the Plan.

The MCHCP employs 75 individuals focused on the administration of employee benefits. Specialties include executive management, consumer affairs, legal and internal audit, medical management, human resources, member records, customer support, marketing, fiscal, and information technology.

Medical Insurance

MCHCP offers insurance coverage to State and Public Entity members, but the types of plans offered vary. Preferred Provider Organization (PPO) and Health Maintenance Organization (HMO) plans are available to State members. Plan offerings may vary by region. Point of Service (POS) and PPO plans are offered to Public Entity members.

Health Maintenance Organization (HMO)

An HMO is a health care delivery system that utilizes a network of providers to administer all necessary health care. The network includes physicians, hospitals, laboratories and other ancillary providers. In some cases, health care is directed through a primary care physician (PCP) who acts as a "gatekeeper" to all required health care services. Generally, all services can be provided within the network; however if a service cannot be provided, the HMO will make arrangements for the member to receive services elsewhere. Non-network services received are not covered unless they are due to a medical emergency or with prior approval of the HMO. In most cases, members pay set copayment amounts for services provided.

Preferred Provider Organization (PPO)

MCHCP's PPO plan is a comprehensive major medical plan which uses a network of preferred providers. A PPO plan allows members to use any provider. However, by utilizing the PPO network, members' claims are paid at a higher percentage.

For State members, the PPO (Copay Plan) has network benefits with set copayments. The non-network benefits require that a deductible is met before claims are paid at 70/30 percent. The public entity PPO plan requires that a deductible be met before most claims are paid. Network benefits are paid at 80/20 percent and non-network claims are paid at 60/40 percent.

SUMMARY OF PLAN PROVISIONS

Point of Service (POS)

The POS health plan is available to Public Entities in the central, east and southwest regions of the State. It is a health care plan which provides network and non-network benefits. Claims payment is determined at the point where the member receives services or care. Members are responsible for set copayment amounts when accessing care within the plan's network of providers. If non-network providers are used, services are subject to a deductible and coinsurance amount.

Active Employees

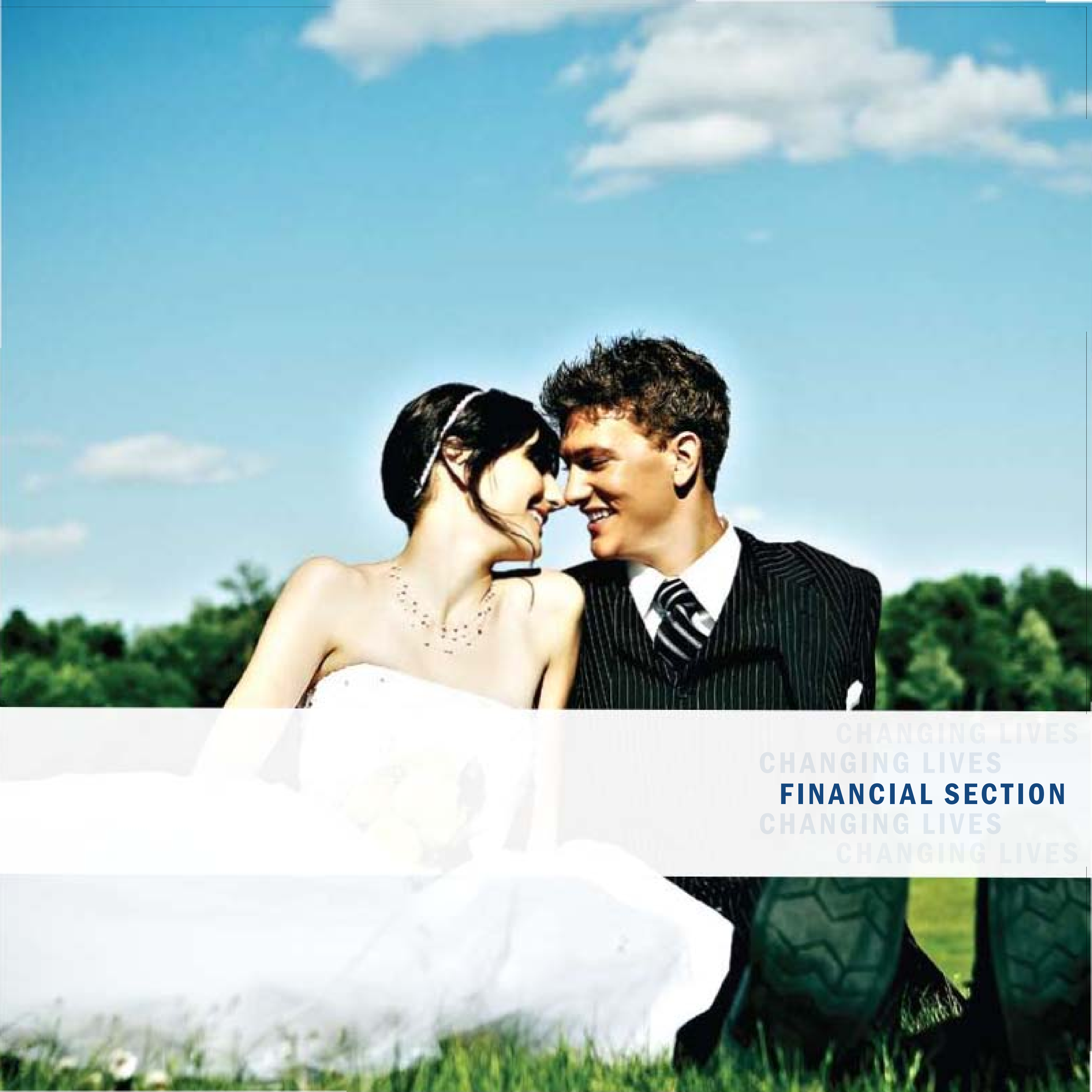
Members working for an agency covered by MCHCP are eligible for medical coverage on the first of the month following their date of employment.

Retired Employees

Retiring employees may participate in an MCHCP plan if they have been covered under MCHCP since the effective date of the last open enrollment period; if they had continuous coverage under another medical plan for six months immediately prior to the termination of their employment, or since they were first eligible for medical coverage. When a retiree becomes eligible for Medicare, Medicare becomes the primary payor.

COBRA & Vested Participants

Under federal COBRA law, employees may continue their medical coverage at termination of employment, unless eligible for Medicare or covered by another group health plan, but participants must pay the entire cost. Terminated-vested members may elect to participate in an MCHCP plan if they had coverage since the effective date of the last open enrollment period or if they had continuous coverage under another medical plan for six months immediately prior to the termination of their employment, or since they were first eligible for medical coverage.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FINANCIAL SECTION
CHANGING LIVES
CHANGING LIVES

REPORT OF INDEPENDENT AUDITORS

WILLIAMS KEEPERS LLC

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Missouri Consolidated Health Care Plan

We have audited the accompanying financial statements of each major fund of Missouri Consolidated Health Care Plan (the Plan) as of and for the years ended June 30, 2008 and 2007, as applicable, which collectively comprise the Plan's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Plan's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Plan as of June 30, 2008 and 2007, as applicable, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statement, in 2008 the Plan adopted the provisions of Governmental Accounting Standards Board (GASB) Statements #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plan* and GASB #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The Management's Discussion and Analysis and the required supplementary information as listed in the table of contents are not a required part of the basic financial statements of the Plan, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Williams Keepers LLC

December 5, 2008

MANAGEMENT'S DISCUSSION & ANALYSIS

This section of the annual financial report provides an overview and analysis of the financial activities of the Missouri Consolidated Health Care Plan (MCHCP) for the fiscal years ended June 30, 2008 and 2007. We encourage you to consider the information presented here in conjunction with additional information presented in the basic financial statements which follow this section.

During the fiscal year ended June 30, 2008, MCHCP implemented the provisions of Governmental Accounting Standards Board (GASB) Statement # 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* It was not required to implement this statement until this fiscal year because it previously accounted and reported for its activities under GASB #10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues.* GASB #10 was amended by GASB #45 but remains in effect for accounting for healthcare benefits to retirees until the effective date of GASB #45. Thus, GASB #45 was effective for MCHCP's fiscal year ended June 30, 2008.

As a result of implementation, MCHCP created a separate fiduciary trust fund (State Retiree Welfare Benefit Trust or SRWBT) to handle the post-employment benefits for state employees. Prior to that time, the Internal Service Fund (ISF) of MCHCP handled both active and retired participants. For the current fiscal year, even though there was no significant change from an operational aspect, the net assets and activity related to active participants is reported in the ISF and the net assets and activity related to retired participants is reported in the SRWBT in the accompanying financial statements.

FUND ACCOUNTING

A ***fund*** is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. MCHCP, like other discretely presented component units of the State of Missouri (as defined by GASB Statement No. 14), uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. There are three categories available for governmental accounting: governmental funds, proprietary funds and fiduciary funds. The ISF is considered to be a proprietary fund while SRWBT is classified as a fiduciary fund. MCHCP does not have any governmental funds.

Proprietary funds - Proprietary funds account for governmental operations that are designed to be self-supporting from fees charged to consumers of the provision of those goods and services or where the government has decided that the periodic determination of revenues, expenses, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounting and financial reporting practices of proprietary funds are similar to those used for business enterprises and focus on capital maintenance and the flow of economic resources through the use of accrual accounting. Of the two types of proprietary funds, MCHCP maintains one type: internal service fund. Internal service funds account for the financing of goods or services provided by one governmental department or agency to another and are expected to be self-supporting through charges to users. MCHCP's purpose is to provide medical insurance benefits to the State of Missouri's and other participating Missouri public entities' employees, retirees, and their dependents.

Fiduciary Funds - Fiduciary funds account for assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. Fiduciary fund accounting is similar to that used for proprietary funds. The purpose of the SRWBT is to provide health and welfare benefits for the exclusive benefit of current and retired employees of the State and their dependents who meet eligibility requirements except for those retired members covered by other post employment benefit (OPEB) plans of the State.

MANAGEMENT'S DISCUSSION & ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Plan's basic financial statements. Typically, governmental financial statements would be presented as three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. However, because the Plan has only proprietary and fiduciary funds, government-wide financial statements are not presented. Proprietary funds present financial statement information in the same manner as government-wide financial statements only with more detail, and government-wide financial statements would be repetitive. In addition, fiduciary funds are not reflected in government-wide financial statements because the resources of that fund are not available to support MCHCP's own programs.

MCHCP presents the ISF and SRWBT on separate fund financial statements. For the ISF, the basic financial statements are comprised of the Balance Sheet; the Statement of Revenues, Expenses and Change in Net Assets; and the Statement of Cash Flows. For SRWBT, the basic financial statements are comprised of the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets. The Notes to the Financial Statements are also part of the basic financial statements and apply to both the ISF and SRWBT. The financial statements are prepared on the accrual basis in accordance with U.S. generally accepted accounting principles applicable to governmental benefit plans.

The Balance Sheet and Statement of Plan Net Assets present MCHCP's financial position as of the end of the fiscal year for each fund. Information is displayed as assets and liabilities, with the difference between the two reported as net assets or deficit. The net assets of MCHCP reflect the resources available as of the end of the fiscal year to pay benefits to members when due. Over time, increases and decreases in net assets measure whether MCHCP's financial position is improving or deteriorating.

Condensed Balance Sheets

Internal Service Fund

	2008	2007	2006
ASSETS			
Current assets	$ 178,689,549	$ 202,044,507	$ 154,990,416
Capital assets	605,261	426,853	416,629
Total assets	$ 179,294,810	$ 202,471,360	$ 155,407,045
LIABILITIES AND NET ASSETS			
Accrued medical claims and fees	$ 46,018,127	$ 49,625,271	$ 41,931,016
Deferred premiums and other liabilities	27,051,158	20,439,807	19,269,830
Total current liabilities	73,069,285	70,065,078	61,200,846
Net assets:			
Unrestricted	105,777,582	132,005,707	93,868,241
Invested in capital assets, net of liabilities	447,943	400,575	337,958
Total net assets	$ 106,225,525	132,406,282	94,206,199
Total liabilities and net assets	$ 179,294,810	$ 202,471,360	$ 155,407,045

The Statement of Revenues, Expenses and Change in Net Assets and the Statement of Changes in Plan Net Assets present information detailing the revenues and expenses that resulted in the change in net assets that occurred during the current fiscal year. All revenues and expenses are reported on an accrual basis. This means that the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual cash is received or paid. Thus, revenues and expenses are reported in these statements for some items that will not result in cash flows until future fiscal periods. For example, contributions due from a public entity, even though not yet paid by year end, will be reflected as revenue. Likewise, claims that occurred during the fiscal year under self-funded plans will be reflected as an expense, whether or not they have been paid as of the end of the fiscal year.

The Statement of Cash Flows presents the cash inflows and outflows of the ISF categorized by operating, capital and related financing, and investing activities. It reconciles the beginning and end of year cash balances contained in the Balance Sheet. The effects of accrual accounting are adjusted out and noncash activities, such as depreciation, are removed to supplement the presentation in the Statement of Revenue, Expenses and Change in Net Assets. A statement of cash flows is not required for the SRWBT.

The Notes to Financial Statements follow the above basic financial statements and provide additional information that is essential to a full understanding of the data provided in the financial statements.

Condensed Statements of Revenue, Expenses and Change in Net Assets

Internal Service Fund

	2008	2007	2006
Operating revenues:			
State/employer	$ 276,886,166	$ 362,001,092	$ 319,465,109
State employees/members	57,339,368	93,152,562	84,069,097
Public entities	10,008,570	9,121,094	8,989,197
Subcontractor and other rebates	5,033,832	10,150,614	8,104,447
Total operating revenues	349,267,936	474,425,362	420,627,850
Operating expenses:			
Medical claims and capitation expense	376,273,599	437,756,209	396,446,979
General and administration expense	6,274,233	7,573,108	7,418,275
Total operating expenses	382,547,832	445,329,317	403,865,254
Operating income	(33,279,896)	29,096,045	16,762,596
Investment income and other changes	7,099,139	9,104,038	5,928,270
Excess of revenues over expenses	(26,180,757)	38,200,083	22,690,866
Net assets, beginning of the year	132,406,282	94,206,199	71,515,333
Net assets, end of the year	$ 106,225,525	$ 132,406,282	$ 94,206,199

State Retiree Welfare Benefit Trust: Statement of Plan Net Assets

As of June 30, 2008

		2008
ASSETS		
Cash and cash equivalents	$	15,646,388
Due from MCHCP		10,258,019
RECEIVABLES		
Prescription drug rebates		1,360,914
Retiree drug subsidy		1,951,839
Total receivables		3,312,753
Total assets		29,217,160
LIABILITIES		
Claims payable - IBNR		10,451,100
Deferred revenue		2,995,751
Other liabilities		123,921
Total liabilities		13,570,772
Net assets, held in trust for other post-employment benefits	$	15,646,388

State Retiree Welfare Benefit Trust: Statement of Changes in Plan Net Assets

For the year ended June 30, 2008

		2008
Additions:		
Employer contributions	$	68,826,446
Employee contributions		40,826,303
Interest income		184,592
Retiree Drug Subsidy and other rebates		8,079,801
Total Additions		117,917,142
Deductions:		
Medical claims and capitation expense		94,399,433
Claims administration services		4,557,702
Administration and other		3,313,619
Total Deductions		102,270,754
Net Increase		15,646,388
Net assets held in trust for other post-employment benefits:		
Beginning of year		-
End of year	$	15,646,388

FINANCIAL ANALYSIS

The above tables present summarized financial position and results for the fiscal years ending June 30, 2008, 2007, and 2006. Additional details are available in the accompanying basic financial statements. For fiscal year 2008, comments are separated between the ISF (active participants) and the SRWBT (retired participants) as appropriate. For fiscal years 2007 and 2006, the term "the Plan" refers to the Internal Service Fund including both active and retired participants.

Current assets decreased during 2008 primarily due to decreases in cash and cash equivalents while increases in current assets in 2007 over 2006 were generally also impacted by changes in cash and cash equivalents. Fiscal year 2008 represented the initial year of presentation for the SRWBT with assets of the SRWBT presented separately in the Statement of Plan Net Assets. Prior to 2008 and the creation of the SRWBT, all asset activity for both active and retired members was accounted for in the ISF's Balance Sheet.

During 2008, rebates as a component of rebate and other receivables for the ISF totaled $2,179,550 while rebates for the SRWBT amounted to $3,312,753 or approximately 60% of the rebates due in total. Other receivables for 2008 increased due to approximately $1.5 million in claims overpayments due the ISF at June 30, 2008, from a third party administrator (TPA). The payments were received in July and August 2008. Rebates as a portion of rebates and other receivables in 2007 over 2006 were due primarily to the Plan's effective management of generic prescription substitutions from previously prescribed brand name alternatives. The overall savings to the Plan far outweighed the loss of rebates as every percentage point of increased generic utilization saves the Plan approximately $920,000. Rebates and other receivables increased as a result of approximately $2,600,000 in Medicare Part D subsidy payments due the plan at June 30, 2006.

Under the Medicare Modernization Act (MMA), a federal program, the retiree drug subsidy is one of the options designed to encourage employers to continue to provide prescription drug coverage to Medicare-eligible retirees at a lower cost while retaining current plan design.

Capital asset activity has been minimal as operations have not significantly changed during the years presented.

Accrued medical claims and fees increased for the ISF and the SRWBT in total by $5,491,200 in 2008 due mostly to increases in claims incurred but not reported (IBNR). During 2008, the initial year of separating the activity for medical claims and fees for active participants and activity attributable to the SRWBT, medical claims and capitation fee expenses for the Plan and SRWBT was $46,017,127 and $10,451,100, respectively. Accrued medical claims and fees increased most notably in 2007 over 2006 by approximately $10,560,000 due to increases in claims incurred but not reported (IBNR). This increase was the result of continued penetration of self funded products by over 4% in previously fully insured markets.

Accounts payable and accrued expenses decreased significantly in 2008 in comparison to 2007 due mainly to approximately $1 million in State contributions due back to the State for transfers made to MCHCP after the month of employee termination for the period January 1, 2007 through June 30, 2007. Previous to January 2007, the various State agencies did not closely monitor contributions paid in the month of employee termination. Beginning in January 2007, with the introduction of SEBES—Statewide Employee Benefit Enrollment System, MCHCP retained the monitoring and return of these contributions to the Office of Administration.

Deferred premiums and other liabilities have experienced only slight fluctuations and are indicative of the changes in state contributions and the timing of receipt of payments to MCHCP. Deferred revenues for 2008 are comprised of $16,400,723 for the ISF and $2,995,751 attributable to the SRWBT. SRWBT deferred revenues are composed of premium deductions from retiree benefit checks received from MOSERS prior to the month of coverage.

State/Employer contributions for fiscal year 2008 for both the ISF and the SRWBT totaled $345,712,612 with $276,886,166 attributable to the ISF for active employee contributions and $68,826,446 attributable to SRWBT for retiree contributions. This contribution level represented approximately a 4% reduction in funding over fiscal year 2007 contributions from the State/Employer of $362,001,092. Funding to the ISF was reduced by the General Assembly during fiscal year 2008 in an effort to reduce the reserve balances of the ISF. In addition, employee benefit contributions had customarily received an estimated appropriation status to allow for fluctuations in employee funding sources. During fiscal year 2008, the estimated status was removed by the General Assembly for fiscal year 2008 resulting in the inability of the State to fully transfer appropriated funds to the ISF. The loss of estimated funding status resulted in approximately $5.5 million in State/Employer contributions not being transferred to the ISF. The ISF has requested a supplemental budget request to the General Assembly to recover the funding. State/Employer contributions in 2007 increased approximately 13% over 2006 revenues due mainly to medical and pharmacy trend increases for the second half of the fiscal year of approximately 12% and 13% respectively. Member contributions in 2007 were impacted by an increase in enrollment beginning in January 2007 over calendar year 2006 of approximately 1,700 lives. Additionally, those members who chose not to enroll in the sponsored wellness program were required to pay a higher premium for their coverage. In January 2006, the State began offering a statewide dental plan. Due to increased participation in the dental program, dental premium revenue increased by approximately $3,000,000 and accounted for the majority of the 6% increase in contributions from state members.

MANAGEMENT'S DISCUSSION & ANALYSIS

Premium rates are based on historical experience and estimates of future trends. Continuing increases in premiums have caused a number of Missouri local government entities (public entities) to leave the ISF. Although enrollment decreased in fiscal year 2008 by approximately 5%, revenues increased in 2008 by approximately 10% due to the mix of enrollment and the fact that average enrollment for the year was relatively stable under the end of the year. The number of public entity members at year end 2007, increased approximately 4% over 2006 resulting in slight increases in public entity revenues for the year.

Beginning January 1, 2006, Medicare prescription drug coverage was made available to all people with Medicare, regardless of income, health status, or current health care. Because the prescription drug coverage offered by MCHCP was actuarially considered, on average for all plan participants, at least as good as standard Medicare coverage, members were encouraged to keep their MCHCP coverage. During fiscal year 2008, the SRWBT received $8,079,071 in subsidy payments while 2007 totals for the Plan were $4,472,408. This increase is mainly the result of additional eligible drug payments for both fiscal years 2007 and 2006 being received by the SRWBT in 2008. Subsidy payments in 2006 reflect only 6 months of payments since the inception of the program in January 2006.

Wellness and disease management programs were introduced in 2006 in an effort to promote healthy member outcomes and for cost containment measures. Program expenses for both the ISF and the SRWBT in 2008 totaled $5,551,178 a 3% reduction in costs over 2007 due mainly to a slight decrease in employee enrollment in the programs. Expenditures for 2006 of $2,839,300 represent only 6 months of expenditures since the inception of the programs in January 2006. Self-funded health care costs for 2008 for both the ISF and the SRWBT totaled $393,124,793 or approximately 83% of the $471 million spent in claims and administrative service costs. Self-funded health care costs for 2007 increased to approximately 87% of the over $437 million in total claims and administrative service costs. In 2006, approximately 85% of the $396,446,979 was for self funding of health care costs. Medical claims and capitation expense increased in 2008 by approximately 9% over 2007 due mainly to normal increases in medical cost trends and an increase in over 1,400 lives covered by the ISF in 2008. Claims administrative services has gone up for each of the three years presented and is reflective of enrollment in self-funded options for the periods of 2008 through 2006.

MCHCP's cash is invested conservatively in overnight repurchase agreements to preserve principal and maintain liquidity. Beginning in 2006, MCHCP invested approximately $30,000,000 in longer term maturities in an effort to maximize return on investment and to diversify the portfolio. Investment income, which consists of interest income, unrealized gains and losses in fair value, accretion of discounts, and amortization of premiums, decreased in 2008 over 2007 due mainly to a 1% decrease in operating revenue for the ISF and the SRWBT and the general economic conditions facing returns on investment during the fiscal year. Investment income for the ISF and the SRWBT was realized in the amount of $7,283,731 for 2008, $9,107,395 for 2007, and $5,928,270 for 2006.

MCHCP realized a reduction in net assets for 2008 due mainly to decreased contributions from the State, but had significant, positive change in net assets at June 30, 2007 and 2006, as a result of the actual pharmacy and self-funded medical plan costs being significantly less than the actuarial projections and the continued change in the mix of benefit offerings.

MCHCP's actuary reviewed the financial assets of MCHCP's trust in conjunction with the reserve obligations and funding available as provided by the Missouri General Assembly. The actuary recommended to MCHCP Board of Trustees that the ISF maintain a minimum of reserves equal to three months of expected incurred claims in addition to the incurred but not reported (IBNR) claims reserve. This recommended reserve, known as the Target Claims Reserve, is necessary in order to provide financial stability to the ISF and to ensure MCHCP's ability to meet its obligations to its members in the event of unforeseen or catastrophic events. MCHCP Board of Trustees voted to adopt

the recommendation of the actuary. As of June 30, 2008, the Target Claims Reserve necessary to meet the actuarial recommendation equaled $82,782,000 for the ISF and SRWBT. This claim reserve is held in trust within the unrestricted net assets of the ISF.

SUMMARY

During the years presented, MCHCP faced a tightened State budget, which compelled it to look at new products to offer. Combined with expected continued escalation in health care costs, MCHCP faces significant challenges in an effort to provide affordable health care coverage to its members. As a result, MCHCP has explored a full range of viable options to accommodate the State budget limitations, including changes in benefit design, modifications in co-pay and deductible amounts, increases in premiums, additional self-funded programs, and changes in provider networks. Beginning in 2006, wellness and disease management programs were initiated to continue to develop healthier outcomes and reduce claims expenditures. During 2007, MCHCP continued its expansion of self-insured coverage to additional areas of the State. The overall financial position of MCHCP is reliant upon the ongoing savings from the self-funded programs and the addition of cost containment measures to continue to produce a healthier membership in MCHCP.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of MCHCP's financial position for all those with an interest in MCHCP. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Missouri Consolidated Health Care Plan, 832 Weathered Rock Court, PO Box 104355, Jefferson City, Missouri 65110-4355.

Balance Sheets

Internal Service Fund

As of June 30, 2008 and 2007

	2008		2007	
ASSETS				
Current assets:				
Cash and cash equivalents	$	143,591,344	$	166,526,989
Investments		30,915,773		30,471,275
Rebates and other receivables		4,083,531		5,027,801
Prepaid expenses		98,901		18,442
Total current assets		178,689,549		202,044,507
Capital assets:				
Furniture, fixtures and equipment, net of accumulated depreciation of $2,152,622 and $2,273,992, respectively		605,261		426,853
Total assets	$	179,294,810	$	202,471,360
LIABILITIES AND NET ASSETS				
Accrued medical claims and capitation fee expense	$	46,018,127	$	49,625,271
Accounts payable and accrued expenses		392,416		1,377,695
Due to SRWBT		10,258,019		-
Deferred premium revenue		16,400,723		19,062,112
Total current liabilities		73,069,285		70,065,078
Net assets:				
Unrestricted		105,777,582		132,005,707
Invested in capital assets, net of liabilities		447,943		400,575
Total net assets	$	106,225,525	$	132,406,282
Total liabilities and net assets	$	179,294,810	$	202,471,360

The accompanying notes are an integral part of the financial statements.

Statements of Revenues, Expenses and Change in Net Assets

Internal Service Fund

For the years ended June 30, 2008 and 2007

	2008	2007
Operating revenues:		
State/employer contributions	$ 276,886,166	$ 362,001,092
Member contributions	57,339,368	93,152,562
Public entity contributions	10,008,570	9,121,094
Pharmacy rebates	5,033,832	5,678,206
Medicare Part D subsidy	-	4,472,408
Total operating revenues	349,267,936	474,425,362
Operating expenses:		
Medical claims and capitation expense	357,621,982	414,402,466
Claims administration services	14,432,722	17,604,641
Payroll and related benefits	3,291,979	4,123,871
Health Management	4,218,895	5,749,101
Administration	1,159,062	1,473,496
Professional services	907,127	816,500
Employee Assistance Program	674,601	881,723
Depreciation	241,464	277,519
Total operating expenses	382,547,832	445,329,317
Operating revenues over operating expenses	(33,279,896)	29,096,045
Nonoperating revenues (expenses):		
Investment income	7,099,139	9,104,038
Change in the net assets	(26,180,757)	38,200,083
Net assets, beginning of year	132,406,282	94,206,199
Net assets, end of year	$ 106,225,525	$ 132,406,282

The accompanying notes are an integral part of the financial statements.

Statements of Cash Flows

For the years ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Cash received from State, employer, members and public entities	$ 347,460,343	$ 475,287,987
Cash payments for medical claims and capitation fee payments	(361,229,116)	(406,708,210)
Cash payments to employees for services	(3,291,979)	(4,120,189)
Cash payments to other suppliers of goods and services	(22,381,900)	(25,745,485)
Net cash provided (used) by operating activities	(39,442,652)	38,714,103
Cash flows from noncapital financing activities:		
Changes in amounts due to SRWBT	10,258,018	-
Cash flows from capital and related financing activities:		
Purchase of furniture, fixtures and equipment	(499,909)	(291,105)
Cash flows from investing activities:		
Cash received from investment income; net of investment expenses	6,637,210	8,320,628
Purchases of investments	(144,931,626)	(360,842,337)
Proceeds from investments	145,043,314	361,452,068
Net cash provided (used) by investing activities	6,748,898	8,930,359
Net increase (decrease) in cash and cash equivalents	(22,935,645)	47,353,357
Cash and cash equivalents, beginning of year	166,526,989	119,173,632
Cash and cash equivalents, end of year	$ 143,591,344	$ 166,526,989
Reconciliation of operating revenues over operating expenses to net cash provided by operating activities:		
Operating revenues over operating expenses	$ (33,279,896)	$ 29,096,045
Adjustments to reconcile operating revenues over operating expenses to net cash provided by operating activities:		
Depreciation	317,716	277,518
Changes in assets and liabilities:		
Rebates and other receivables	853,786	364,679
Prepaid expenses	(80,459)	111,638
Accrued medical claims and capitation fees	(3,607,144)	7,694,257
Accounts payable and accrued expenses	(985,276)	672,020
Deferred premium revenue	(2,661,379)	497,946
Total adjustments	(6,162,756)	9,618,058
Net cash provided by operating activities	$ (39,442,652)	$ 38,714,103

The accompanying notes are an integral part of the financial statements.

State Retiree Welfare Benefit Trust: Statement of Plan Net Assets

As of June 30, 2008

		2008
ASSETS		
Cash and cash equivalents	$	15,646,388
Due from MCHCP		10,258,019
RECEIVABLES		
Prescription drug rebates		1,360,914
Retiree drug subsidy		1,951,839
Total receivables		3,312,753
Total assets		29,217,160
LIABILITIES		
Claims payable - IBNR		10,451,100
Deferred revenue		2,995,751
Other liabilities		123,921
Total liabilities		13,570,772
Net assets, held in trust for other post-employment benefits	$	15,646,388

State Retiree Welfare Benefit Trust: Statement of Changes in Plan Net Assets

For the year ended June 30, 2008

		2008
Additions:		
Employer contributions	$	68,826,446
Employee contributions		40,826,303
Interest income		184,592
Retiree Drug Subsidy and other rebates		8,079,801
Total Additions		117,917,142
Deductions:		
Medical claims and capitation expense		94,399,433
Claims administration services		4,557,702
Administration and other		3,313,619
Total Deductions		102,270,754
Net Increase		15,646,388
Net assets held in trust for other post-employment benefits:		
Beginning of year		-
End of year	$	15,646,388

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. GENERAL

The Missouri Consolidated Health Care Plan (Plan) was statutorily created and organized on January 1, 1994, with the purpose of providing medical insurance benefits to the State of Missouri's (State) employees, retirees and their dependents as well as other Missouri public entity employees, retirees and their dependents. Prior to 1994, medical insurance benefits for the State's employees, retirees and their dependents were provided by Missouri State Employees' Retirement System's (MOSERS) medical care plan. On January 1, 1994, through a transfer agreement between the Plan and MOSERS, all MOSERS related medical care plan assets and liabilities were transferred to the Plan.

The Plan's medical insurance benefits are provided through self-funded preferred provider organizations (PPO), various health maintenance organizations (HMO), and self-funded HMOs. The Plan currently has approximately 104,000 active and retired state members and their dependents, 1,783 public entity members and their dependents, and over 105,000 covered lives and is funded through both employer and employee contributions. Through December 31, 1994, all Plan members were state employees, retirees and their dependents. Beginning January 1, 1995, additional members included public entity employees, retirees and their dependents.

State contribution rates are based on the State's approved appropriation and the number of anticipated participants. State employee and public entity contribution rates are established by the Plan's Board of Trustees based on contractor bids for the plan year and budgeted employer contributions.

Beginning in January 2006, the MCHCP contracted with vendors to provide both statewide wellness and disease management programs with the goal of improving healthy outcomes for its membership.

Governmental Accounting Standards Board (GASB) has two statements related to accounting and reporting for post employment benefits other than pensions (OPEB): GASB #45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions,* which is first effective for certain governments with fiscal years beginning after December 15, 2006, and GASB #43, *Financial Reporting for Post employment Benefit Plans Other Than Pension Plans,* which is generally first effective one year prior to the effective dates of GASB #45.

MCHCP is considered an "agent multiple employer plan" because each employer remains individually responsible for financing its own commitment to provide benefits to its participants, including any eligible retirees. During the fiscal year ended June 30, 2008, MCHCP implemented the provisions of GASB Statement # 43. As a result of implementation, MCHCP created a separate fiduciary trust fund (State Retiree Welfare Benefit Trust or SRWBT) to handle the post-employment benefits for State employees.

SRWBT was established and organized on June 27, 2008, pursuant to the Revised Statutes of Missouri (2000) as amended ("RSMo") 103.003 through 103.178 to provide health and welfare benefits for the exclusive benefit of current and future retired employees of the State and their dependents who meet eligibility requirements except for those retired members covered by other post employment benefit (OPEB) plans of the State. The SRWBT is considered an agent multiple employer plan and is administered by Plan staff under the direction of the Plan Board of Trustees.

Prior to that time, the Internal Service Fund (ISF) of MCHCP handled both active and retired participants. For the current fiscal year, the net assets and activity related to active participants are reported in the ISF and the net assets and activity related to retired participants is reported in the SRWBT in the accompanying financial statements. In the following footnotes, the term “the Plan” refers to both the ISF and SRWBT. Disclosures that are specific to the ISF or SRWBT are separately noted.

The Plan is considered a part of the State’s financial reporting entity and is included in the State’s financial reports as a component unit. As the Plan is considered a political subunit of the State and provider of essential governmental services, it is not subject to federal income taxes, nor the provisions of the Employee Retirement Income Security Act of 1974.

The Plan is administered according to Missouri statutes. These statutes do not include a provision for the termination of the Plan.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING:

The Plan’s financial statements for the ISF were prepared using the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles, as prescribed by the Governmental Accounting Standards Board (GASB). Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* establishes the accounting principles generally accepted in the United States of America hierarchy for proprietary funds. The statement requires that proprietary activities apply all applicable Governmental Accounting Standards Board (GASB) pronouncements. The Plan must also apply Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, to the extent that they do not conflict with GASB pronouncements.

The financial statements of the SRWBT are intended to present the financial position and the changes in financial position of only that portion of the activities attributable to the transactions of the SRWBT. The SRWBT is accounted for as a fiduciary fund. Accordingly, the financial statements are prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America for governmental entities as prescribed or permitted by the Governmental Accounting Standards Board (GASB).

B. METHOD USED TO VALUE INVESTMENTS:

Investments are reported at fair value on a trade date basis with changes in fair value recorded in investment income on the statement of revenues, expenses and changes in net assets. Investments are recorded at fair value as determined by quoted market price, when available, or estimated fair value when not available. Many factors are considered in arriving at that fair market value. In general, however, bonds and mortgages are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Realized gains and losses are based on the specific identification basis. The calculation of realized gains and losses is independent of the calculation of the change in net unrealized gains and losses.

NOTES TO FINANCIAL STATEMENTS

C. DEPOSITS AND INVESTMENTS:

The Plan considers all highly liquid investments, readily convertible into cash with original maturities of three months or less to be cash equivalents.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Plan would not be able to recover deposits or collateral securities in the possession of an outside party. In an effort to mitigate custodial credit risk, the Plan requires the bank to sweep the accounts each night into overnight repurchase agreements for which the underlying securities must be of the type approved by the State. All remaining cash balances are to be insured or appropriately collateralized.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the transaction, the Plan would not be able to recover the value of investments or collateral securities in the possession of an outside party. The Plan does not have a formal policy regarding custodial credit risk. However, the bank acting as the investment manager has been approved by the Plan's Board of Trustees.

Deposits

Cash balances represent operating bank account balances. To maximize investment income, the float caused by outstanding checks is invested in overnight repurchase agreements, thus causing a negative carrying value.

At June 30, 2008 cash held in financial institution had a bank balance of $428,769 and a carrying value of ($8,715,766). Of the bank balance $100,000 was covered by federal depository insurance. The remaining $328,769 was collateralized with securities held by a third-party institution in the Plan's name. The remaining $167,953,498 of cash and cash equivalents are held in repurchase agreements and fully collateralized with securities held by a third-party financial institution in the Plan's name.

At June 30, 2007 cash held in financial institution had a bank balance of $17,030,356 and a carrying value of $7,201,493. Of the bank balance, $104,516 was covered by federal depository insurance. The remaining $16,925,840 was collateralized with securities held by a third-party institution in the Plan's name. The remaining $159,325,496 of cash and cash equivalents are held in repurchase agreements and fully collateralized with securities held by a third-party financial institution in the Plan's name.

The Plan's contracted yield on its overnight repurchase agreements was 28.5 basis points above the prevailing ninety-one day U.S. Treasury Bill rate as of June 30, 2008 and 2007.

Investments

In December 2005, the Plan adopted a revised investment policy to maximize investment earnings. The Plan's investment policy is predicated on the primary objectives of safety, liquidity, and yield, in order of priority. Investments in bankers' acceptances and commercial paper are required to mature and become payable not more than one hundred eighty days from the date of purchase. All other investments are required to mature and become payable not more than five years from the date of purchase. The weighted average life should not exceed three years and be consistent with the investment objectives.

The Plan follows the "prudent person" rule for investment decisions. Essentially, the Plan operates as a prudent person acting in a like capacity and familiar with similar matters would act in the conduct of an enterprise of a like character and with like aims. Any person with fiduciary responsibilities with respect to the Plan is covered by this "prudent person" rule. As of June 30, 2008 and 2007, the Plan had the following investments:

Types of Investments	2008 Market Value	2007 Market Value
U.S. Agencies	$ 12,676,175	$ 20,816,759
U.S. Government Guaranteed Mortgages	9,709,238	3,541,293
U.S. Treasury	3,494,317	-
Commercial Paper	5,036,043	6,113,223
Total Investments	$ 30,915,773	$ 30,471,275

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issue. To mitigate this risk, the Plan's investment policy provides general guidelines on diversification. Investments in U.S. Treasuries and securities, collateralized time and demand deposits, and collateralized repurchase agreements can constitute up to 100% of the investment portfolio; U.S. government agencies, including mortgage backed securities, cannot exceed 60% of the portfolio; and U.S. government agency callable securities, bankers acceptances, and commercial paper cannot exceed 30% of the portfolio. At June 30, 2008 and June 30, 2007, the Plan held the following investments in a single issue that exceeded 5% of total investments which were not U.S. securities. These holdings were within the Plan's investment policy guidelines. Carrying value of such investments is as follows:

June 30, 2008			June 30, 2007		
Merrill Lynch commercial paper	$	1,987,820	UBS Finance commercial paper	$	1,721,947
			Madison Gas & Electric commercial paper	$	1,775,550

Credit Risk

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligation. The Plan minimizes this risk by only authorizing investment types approved by the Treasurer of the State of Missouri, limiting investments to the safest types of securities, and diversifying the portfolio so potential losses on individual securities will be minimized. The Plan does not have an investment policy designating a minimal rating. The Plan's investments by credit rating category as of June 30, 2008 and 2007 are presented on the following page.

NOTES TO FINANCIAL STATEMENTS

FY 2008

Types of Investments	2008 Market Value	2008 Avg. Ratings
U.S. Agencies	$ 12,676,175	AAA/Aaa
U.S. Government Guaranteed Mortgages	9,709,238	AAA/Aaa
U.S. Treasury	3,494,317	AAA/Aaa
Commercial Paper	5,036,043	A1/P1
Total Investments	$ 30,915,773	

FY 2007

Types of Investments	2007 Market Value	2007 Avg. Ratings
U.S. Agencies	$ 20,816,759	AAA/Aaa
U.S. Government Guaranteed Mortgages	3,541,293	AAA/Aaa
U.S. Treasury	–	–
Commercial Paper	6,113,223	A1/P1
Total Investments	$ 30,471,275	

Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. The Plan minimizes this risk by 1) structuring the portfolio so securities mature to meet cash requirements for ongoing operations, 2) using cash flow modeling to moderate the interest rate risk by reducing any unanticipated security sales which could result in a loss of principal and 3) maintaining the operating funds primarily in repurchase agreements according to the banking contract. For the interest rate risk measurement for the Plan, Central Bank employs the duration method. The maturities of the Plan's investments as of June 30, 2008 and 2007 are presented below:

FY 2008

Types of Investments	2008 Market Value	2008 Avg. Duration
U.S. Agencies	$ 12,676,175	2.71
U.S. Government Guaranteed Mortgages	9,709,238	1.29
U.S. Treasury	3,494,317	2.48
Commercial Paper	5,036,043	0.08
Total Investments	$ 30,915,773	

FY 2007

Types of Investments	2007 Market Value	2007 Avg. Duration
U.S. Agencies	$ 20,816,759	2.25
U.S. Government Guaranteed Mortgages	3,541,293	1.62
U.S. Treasury	–	–
Commercial Paper	6,113,223	0.02
Total Investments	$ 30,471,275	

Foreign Currency Risk

Foreign currency risk is the risk changes in exchange rates will adversely affect the fair value of an investment. The Plan has no investments subject to foreign currency risk.

D. INTERFUND ACTIVITY AND BALANCES

As disclosed above, the ISF provides all administrative responsibilities related to SRWBT, which has no separate facilities or staff. Expenses directly attributable to SRWBT are charged to SRWBT. Other operating expenses, including personnel, are allocated between the ISF and the SRWBT based on participant counts for retired and active participants.

The balance of the interfund receivable/payable represents the excess of SRWBT contributions collected by the ISF Plan over expenses paid by the ISF Plan for SRWBT.

E. RECEIVABLES

As a Medicare Part D Prescription Drug Plan (PDP), the Plan receives a retiree drug subsidy from the federal government. Beginning in fiscal year 2008, all amounts related to PDP are recorded in the SRWBT as the program is only for retirees. Estimated revenue is recognized as SRWBT incurs Medicare-eligible retiree prescription drug expenditures.

In addition, the Plan receives rebates from its pharmacy benefit manager related to manufacturers' rebates and other guaranteed rebates for non-Medicare Part D prescriptions. Beginning in fiscal year 2008, these rebates are allocated between the ISF and the SRWBT. Estimated revenue is recognized for rebates based on prescription claims counts and historical average rebate per claim.

Substantially all receivables are comprised of pharmacy rebates from the pharmacy benefit manager and the Medicare Part D subsidy. In addition, during fiscal year 2008, the Plan had approximately $1.5 million in claims overpayments due the Plan at June 30, 2008, from a third party administrator. The payments were received in July and August 2008.

F. FURNITURE, FIXTURES & EQUIPMENT

Furniture, fixtures and equipment are capitalized at cost when acquired. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Furniture and fixtures are depreciated over a ten-year useful life. Data processing equipment is depreciated over a five-year useful life. Threshold for the capitalizing of assets is $250.
Maintenance and repairs are charged to expense as incurred. The cost and related accumulated depreciation of assets sold or retired are removed from the related accounts and the resulting gains or losses are reflected as nonoperating gains or losses in the statement of revenues, expenses and change in net assets.

The changes in Furniture, Fixtures & Equipment for the years ended June 30, 2008 and 2007 are as presented:

Furniture, Fixtures, and Equipment		
Balance June 30, 2007	$	2,700,845
Additions		507,063
Deletions		(450,025)
Balance June 30, 2008	$	2,757,883
Accumulated Depreciation		
Balance June 30, 2007	$	2,273,992
Depreciation Expense		317,716
Deletions		(439,086)
Balance June 30, 2008	$	2,152,622

Furniture, Fixtures, and Equipment		
Balance June 30, 2006	$	2,508,108
Additions		294,987
Deletions		(102,250)
Balance June 30, 2007	$	2,700,845
Accumulated Depreciation		
Balance June 30, 2006	$	2,091,480
Depreciation Expense		277,519
Deletions		(95,007)
Balance June 30, 2007	$	2,273,992

NOTES TO FINANCIAL STATEMENTS

G. PLAN FUNDING

State Appropriations/Contributions

Funds are appropriated to the Plan by the Missouri State Legislature. Premiums are received one half prior to the month of coverage and one half during the month of coverage. Funds are received by the Plan every two weeks and coincide with the State's payroll cycle.

The State's monthly per member contributions for fiscal year 2008 was $550 per month through April 15, 2008, and was adjusted each remaining pay cycle of fiscal year 2008. Contributions from April 30, 2008 through June 30, 2008, averaged $505 per month. Contributions to the Plan were $548 for the first six months and $640 for the last six months of fiscal year 2007.

In addition to monthly per member contributions, the State also provided additional funding for the post-employment health care benefits (OPEB). The monthly per member contributions are intended to cover the current plan benefits whereas the additional funding is intended to build the funding reserve for future OPEB benefits. The total additional funding contributed during the year ended June 30, 2008, was $15,646,388.

Member Premiums

Monthly member premiums for State employees are established annually by the Plan's Board of Trustees. These premiums are deducted from employee payroll checks in advance. Additionally, the Plan bills members who are not receiving payroll checks two weeks in advance.

Public Entity Premiums

Monthly public entity premiums are established annually by the Plan's Board of Trustees. The Plan bills the public entities two weeks in advance.

Deferred Premium Revenue

Deferred premium revenue includes premium revenue from the members, public entities and the State received in advance of the month coverage is provided.

Operating/Nonoperating Revenues

Operating revenues and expenses reflect items directly related to providing health benefits to members. Nonoperating revenues and expenses represent investment income and other items not directly related to providing health benefits to members.

H. OTHER POST-EMPLOYMENT BENEFITS

Retirees who had state-sponsored medical insurance coverage for at least two years (or since first eligible) before they are eligible to retire, based on their plan's criteria, may continue coverage into retirement. At June 30, 2008 and 2007, there were 17,613 and 17,241 retirees and their dependents who met these eligibility requirements, respectively.

During the years ended June 30, 2008, and 2007, expenditures (net of retiree contributions) of approximately $29.2 million and $24.5 million, respectively, were recognized for postretirement medical insurance coverage under the self-funded PPO option and $64.2 million and $53.1 million, respectively, under the HMO and self-insured HMO options.

Funded Status and Funding Progress

The funded status of the SRWBT as of the most recent actuarial valuation is as follows:

Schedule of Funding Progress

$ in Millions

Fiscal Year Ending	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll** (c)	UAAL as a Percentage of Covered Payroll** [(b) - (a) / (c)]
June 30, 2008	$15.6	$1,276.3	$1,260.3	1.3%	$1,572.9	80.1%

The schedule of funding progress presents multi-year trend information comparing the actuarial value of plan assets to the actuarial accrued liability.
** Payroll projected to June 30, 2008 at 4% annual increase based on actual payroll of $1,512.4 million as of July 1,2007.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and revised estimates are made about future costs. The estimated actuarial accrued liability reflected above is based on the substantive plan in place at the time of the latest actuarial accrued valuation. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued benefits.

Since this is the initial year for SRWBT, the schedule of funding progress only includes the current year information. The purpose of the disclosure is to provide information that approximates the funding progress of the plan.

The accompanying schedule of employer contributions, presented as required supplementary information, presents trend information about the amounts contributed to the plan by employers in comparison to the amount that is actuarially determined in accordance with the requirements of GASB Statement No. 43. The annual required contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTES TO FINANCIAL STATEMENTS

Projections include a broad array of complex social and economic events such as the emergence of new and expensive medical procedures and prescription drug options, changes in investment rates of return, and other uncertainties. As such, the estimate of postretirement program costs contains considerable uncertainty and variability and actual experience may vary significantly from the current estimated obligation. Additional information as of the latest actuarial valuation follows:

Summary of Key Actuarial Methods and Assumptions

Valuation Year:	July 1, 2007 – June 30, 2008
Actuarial cost method	Entry age normal, level percent of pay
Amortization method	30 years, open, level percent of pay
Asset valuation method	Market Value
Actuarial assumptions:	
Discount rate	7.8%
Projected payroll growth rate	4.0%
Heath care cost trend rate (Medical and Prescription Drugs combined)	10% in fiscal 2008, then decreasing by 1% per year to an ultimate of 5.0% in fiscal 2013 and after

Employer Disclosures

Participating employers, upon their implementation of the related GASB #45, are required to disclose additional information with regard to funding policy, the employer's annual OPEB costs and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

I. MEDICAL CLAIMS AND CAPITATION

As of June 30, 2008 and 2007, the Plan insured approximately 80% of its members through various HMO contracts. Approximately 70% of the Plan's members were insured in the self-insured HMOs for both the years ended June 30, 2008 and 2007. Third party administrators are paid a contracted administrative fee per subscriber for the self-insured contracts with the Plan bearing all administrative and medical claims costs of providing coverage to the members. The fully insured HMOs are paid monthly based upon contracted capitation rates and current participation. The Plan bears no additional risk over the prevailing capitation rate for these contracts. As of June 30, 2008, and 2007, respectively, the Plan insured approximately 20% and 22% of it members under a self-insured PPO contract.

The liability for estimated accrued claims and processing costs is based on an actuarial estimate of the ultimate cost of settling such claims due and payable as of the balance sheet date (including claims reported and in process of settlement, claims reported but not yet processed for settlement, and claims incurred for services provided but not yet reported or processed for settlement). The estimated actuarial liability reflects certain assumptions, which include such factors as enrollment and utilization. Adjustments to the estimated actuarial liability for the final settlement of claims will be reflected in the year that actual results of the settlement of the claims are made and are known.

As of June 30, 2008 and 2007, $7,924,027 and $6,571,271 respectively, is included in accrued medical claims and capitation fee expenses for accrued HMO capitation expenses. Additionally, $48,545,200 and $43,054,000 at June 30, 2008 and 2007, respectively, is included in estimated accrued medical costs for claims incurred but not yet paid under the Plan's self-funded products. While management believes these estimates are adequate, the ultimate liability may be more or less than the amounts recorded.

The methods for making such estimates and for establishing the resulting liabilities are continually reviewed, and any adjustments are reflected in current operations. Contingent liabilities exist with respect to claims covered under the Plan in the event a contracted provider or carrier is unable to meet its obligations to the Plan. Changes in estimated accrued claims for fiscal years 2008 and 2007 can be viewed in the table below:

Summary of Changes in Estimated Accrued Claims

	2008 ISF	2008 SRWBT	2007
Balance at beginning of year	$ 43,054,000	$ -	$ 32,494,000
Allocation of beginning IBNR to OPEB	(9,531,513)	9,531,513	
Current year claims and changes in estimates	219,141,625	94,765,455	300,492,666
Claim Payments	(214,570,012)	(93,845,868)	(289,932,666)
Balance at end of year	$ 38,094,100	$ 10,451,100	$ 43,054,000

J. RETIREMENT PLAN

All of the Plan's full-time employees are eligible to participate in the Missouri State Employees' Plan (MSEP). MSEP is a single employer public employee retirement plan of the State of Missouri administered in accordance with Sections 104.010 and 104.312 to 104.1093 of the Revised Statutes of Missouri. Benefits are established by and can be amended by the State of Missouri legislative process. Responsibility for the operation and administration of MSEP is vested in the Missouri State Employees' Retirement System (MOSERS) Board of Trustees. MSEP provides retirement, death and disability benefits to participants and their beneficiaries. MSEP is considered a part of the, State of Missouri financial reporting entity and is included in the State's financial reports as a pension trust fund. MSEP issues a stand-alone report which may be obtained by contacting the MOSERS office located at 907 Wildwood, PO Box 209, Jefferson City, MO 65102.

With respect to the Plan, MSEP is accounted for and reported as a cost-sharing pension plan. Plan payroll for employees covered by MSEP for the years ended June 30, 2008 through 2006 was approximately $3.1 million for fiscal year 2008 and approximately $2.9 million for the years ended June 30, 2007 and 2006. These amounts also represent the Plan's total payroll, excluding related benefits. The Plan made 100% of its actuarially-determined required contributions for the years ended June 30, 2008, 2007, and 2006 which were approximately $402,000, $377,000, and $354,000 respectively. These contributions represented 12.84%, 12.78%, and 12.59% respectively of covered payroll, and are included in payroll and related benefit expense. Employees are not required to make contributions.

K. DEFERRED COMPENSATION PLAN

Effective September 1, 2007, legislation transferred responsibility for the administration of the Missouri State Employees' Deferred Compensation Program to the MOSERS Board of Trustees. On July 1, 2008, the plan administrator, Citistreet, joined ING to become ING Institutional Plan Services. Together as ING, the organization is one of the largest defined contribution plan providers and also provides defined benefit and health and welfare services. Employees are eligible upon hire to contribute to the deferred compensation plan and upon completing one year of employment are eligible to receive a $25 contribution if the employee also makes at least a $25 contribution.

NOTES TO FINANCIAL STATEMENTS

The Deferred Compensation Plan is an eligible state deferred compensation plan as defined by Section 457 of the Internal Revenue Code.

Effective January 1, 1999, amounts deferred under the plan are held in trust for the exclusive benefit of the plan participants and their beneficiaries.

L. EMPLOYEE ASSISTANCE PROGRAM

Beginning January 1, 1996, an employee assistance benefit program was offered to all State employees and their immediate families. The program, serviced through Magellan Health Services, offers six free mental health counseling sessions per episode per year and can be accessed 24 hours a day through a toll-free number.

M. POST-EMPLOYMENT RETIREE HEALTH CARE

For the year ended June 30, 2008, MCHCP also adopted GASB Statement #45, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.* However, all State agencies and component units are included in the State's post-employment retiree health care calculations. Thus, separate information is not available for MCHCP, which is a component unit of the State. For fiscal year 2008, MCHCP contributed $128,412 for its employees in accordance with the State's funding policy toward the annual required contribution (ARC) for post-employment retiree health care.

CHANGING LIVES

REQUIRED SUPPLEMENTARY INFORMATION SECTION

CHANGING LIVES

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Claims Development
State Actives and Retirees

	FY 2006	FY 2007	FY 2008 (Total)	FY 2008 (Active)	FY 2008 (Retiree)
	July 1, 05 - Jun 30, 06	July 1, 06 - Jun 30, 07	July 1, 07 - Jun 30, 08	July 1, 07 - Jun 30, 08	July 1, 07 - Jun 30, 08
Required contribution and investment income	$417,566,923	$381,255,744	$464,275,646	$346,358,507	$117,917,139
Administrative expenses	$10,257,575	$13,322,210	$13,806,748	$10,493,129	$3,313,619
Estimated incurred claims and expenses end of policy year	$341,932,335	$383,798,278	$418,738,680	$325,899,959	$92,838,721
Paid Claims Summary					
	FY 2006	**FY 2007**	**FY 2008 (Total)**	**FY 2008 (Active)**	**FY 2008 (Retiree)**
Paid (cumulative) as of:	July 1, 05 - Jun 30, 06	July 1, 06 - Jun 30, 07	July 1, 07 - Jun 30, 08	July 1, 07 - Jun 30, 08	July 1, 07 - Jun 30, 08
End of policy year	$289,320,000	$313,284,000	$345,506,000	$267,543,000	$77,963,000
One year later	$319,137,000	$352,143,000	*	*	*
Two years later	$319,239,000	*	*	*	*
Incurred Claims Summary					
Re-estimated incurred claims and expenses:	**FY 2006**	**FY 2007**	**FY 2008 (Total)**	**FY 2008 (Active)**	**FY 2008 (Retiree)**
	July 1, 05 - Jun 30, 06	July 1, 06 - Jun 30, 07	July 1, 07 - Jun 30, 08	July 1, 07 - Jun 30, 08	July 1, 07 - Jun 30, 08
End of policy year	$321,711,000	$356,202,000	$393,897,000	$305,516,000	$88,381,000
One year later	$319,239,000	$352,297,000	*	*	*
Two years later	$319,239,000	*	*	*	*
Increase (decrease) in estimated incurred claims and expenses from end of policy year	$22,693,335	$31,501,278	$24,841,680	$20,383,959	$4,457,721

Note: Includes medical and drug claims only. Data prior to FY2005 is not available.
* Data not yet available

Schedule of Funding Progress

$ in Millions

Fiscal Year Ending	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll** (c)	UAAL as a Percentage of Covered Payroll** [(b) - (a) / (c)]
June 30, 2008	$15.6	$1,276.3	$1,260.3	1.3%	$1,572.9	80.1%

The schedule of funding progress presents multi-year trend information comparing the actuarial value of plan assets to the actuarial accrued liability.
** Payroll projected to June 30, 2008 at 4% annual increase based on actual payroll of $1,512.4 million as of July 1,2007.

Schedule of Employer Contributions

$ in Millions

Fiscal Year Ending	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2008	$104,470,900	$68,826,500*	65.9%

* This equals State provided benefit payments and administrative costs of $53.36M and an additional contribution to the trust of $15.46M in fiscal 2008.

Schedule of Percentage of OPEB Cost Contributed

$ in Millions

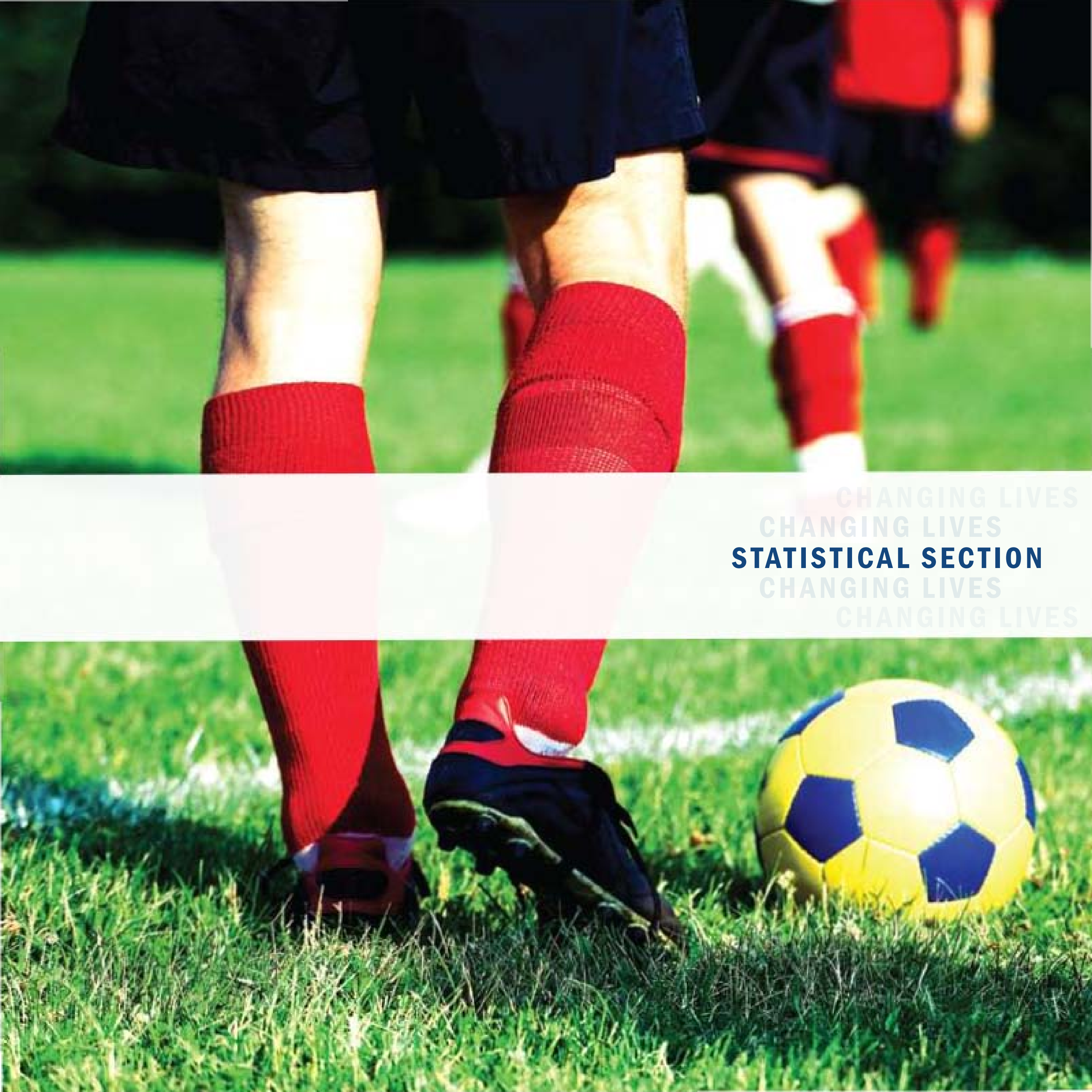
Fiscal Year Ending	Annual OPEB Cost	Percentage of OPEB Cost Contributed*	Net OPEB Obligation
June 30, 2008	$104,470,900	65.9%	$35,644,400

* Actual contributions in fiscal 2008 of $68.8M which equals $53.36M for the State's net benefit payments and administrative costs plus an additional contribution to the trust of $15.46M.

REQUIRED SUPPLEMENTARY INFORMATION

Summary of Key Actuarial Methods and Assumptions

Valuation Year:	July 1, 2007 – June 30, 2008
Actuarial cost method	Entry age normal, level percent of pay
Amortization method	30 years, open, level percent of pay
Asset valuation method	Market Value
Actuarial assumptions:	
Discount rate	7.8%
Projected payroll growth rate	4.0%
Heath care cost trend rate (Medical and Prescription Drugs combined)	10% in fiscal 2008, then decreasing by 1% per year to an ultimate of 5.0% in fiscal 2013 and after



CHANGING LIVES
CHANGING LIVES

STATISTICAL SECTION

CHANGING LIVES
CHANGING LIVES

INTERNAL SERVICE FUND HISTORICAL DATA

Revenues By Source

Ten Years Ended June 30, 2008

Fiscal Year	State/Employer Contributions	Member Contributions	Public Entity Income	Pharmacy Rebates & Subsidy	Total Operating Revenues	Interest Income
2008*	$ 276,886,166	$ 57,339,368	$ 10,008,570	$ 5,033,832	$ 349,267,936	7,099,139
2007	362,001,092	93,152,562	9,121,094	10,150,614	474,425,362	9,104,038
2006	319,465,109	84,069,097	8,989,197	8,104,447	420,627,850	5,928,270
2005	322,984,426	79,112,936	12,455,591	5,306,796	419,859,749	2,492,453
2004	281,657,137	84,756,549	18,201,930	5,169,299	389,784,915	765,034
2003	263,544,820	84,372,737	26,378,699	4,610,566	378,906,822	668,168
2002	222,987,803	75,701,524	37,630,463	–	336,319,790	968,329
2001	169,804,969	62,083,511	76,430,017	–	308,318,497	2,157,472
2000	108,821,820	48,561,768	94,336,655	–	251,720,243	2,125,779
1999	95,312,925	41,993,101	72,710,319	–	210,016,345	2,124,487

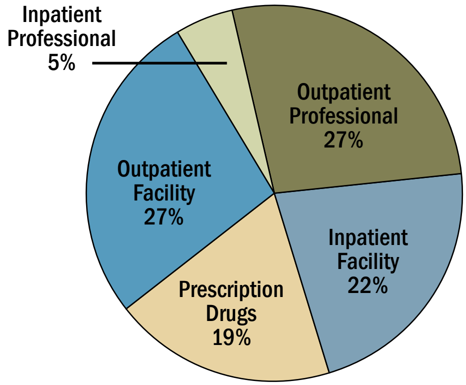
Expenses By Type

Ten Years Ended June 30, 2008

Fiscal Year	Medical Claims/ Capitation & Health Administrative Services	Administration & Payroll	Other	Total Operating Expenses & Fees	Loss on Disposal of Fixed Assets
2008*	$ 376,273,599	$ 4,451,041	$ 1,823,192	$ 382,547,832	–
2007	437,756,208	5,597,367	1,975,742	445,329,317	–
2006	396,446,979	5,309,717	2,108,558	403,865,254	–
2005	383,918,636	5,290,374	1,697,269	390,906,279	–
2004	366,923,269	5,364,366	1,549,405	373,837,040	(24,050)
2003	348,145,907	5,619,962	1,610,952	355,376,821	–
2002	334,208,591	5,314,606	1,795,708	341,318,905	(1,722)
2001	306,651,524	5,553,262	1,995,988	314,200,774	(5,101)
2000	258,313,998	5,493,142	2,608,799	266,415,939	(745)
1999	212,036,418	5,365,111	2,034,140	219,435,669	(9,108)

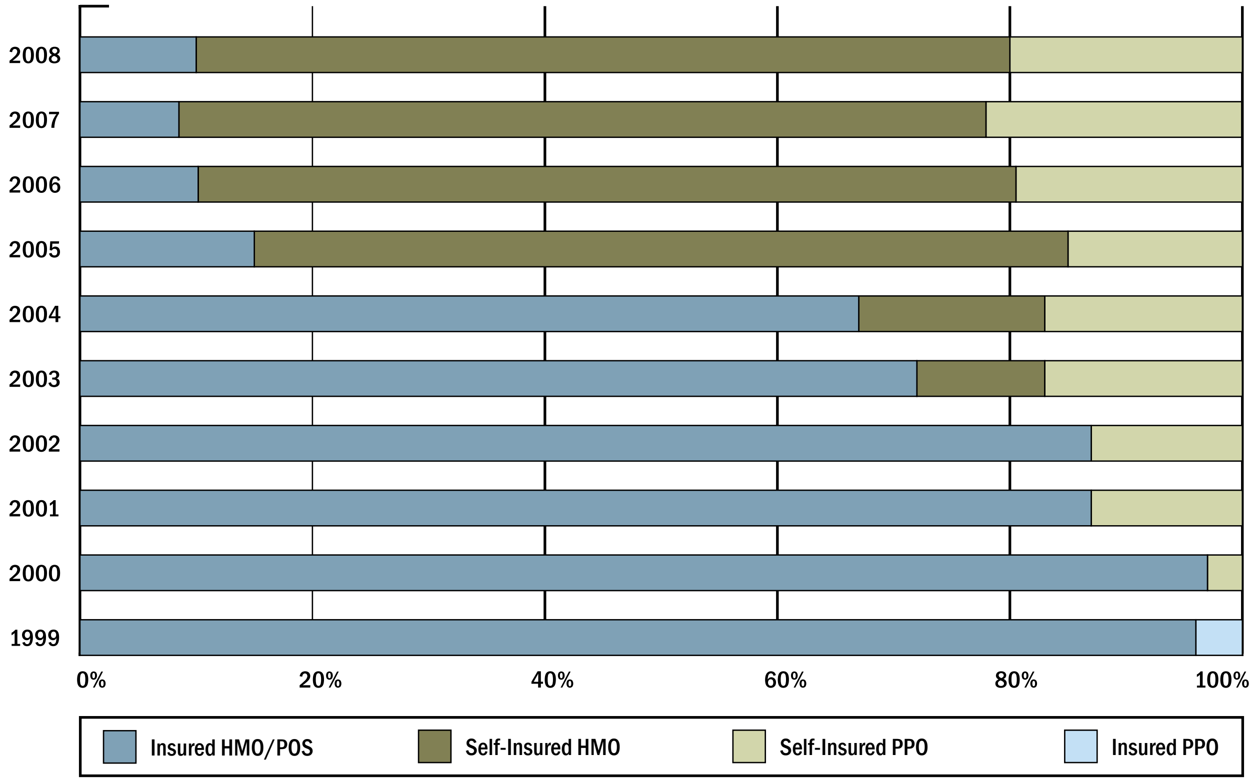
*Activity for 2008 is presented for active members only.

Distribution of Claim Payments
State Members
FY 08



Total Lives by Healthcare Option
State Members
1999-2008

Activity is presented for actives and retirees.



STATEMENTS OF REVENUES, EXPENSES & CHANGE IN NET ASSETS

Internal Service Fund
Ten years ended June 30, 2008

	2008	2007	2006	2005
Operating revenues:				
State/employer contributions	$ 276,886,166	$ 362,001,092	$ 319,465,109	$ 322,984,426
Member contributions	57,339,368	93,152,562	84,069,097	79,112,936
Public entity contributions	10,008,570	9,121,094	8,989,197	12,455,591
Pharmacy rebates	5,033,832	5,678,206	5,539,208	5,306,796
Medicare Part D subsidy	–	4,472,408	2,565,239	–
Total operating revenues	349,267,936	474,425,362	420,627,850	419,859,749
Operating expenses:				
Medical claims and capitation expense	357,621,982	414,402,466	376,750,654	370,454,024
Claims administration services	14,432,722	17,604,641	16,857,025	13,464,612
Payroll and related benefits	3,291,979	4,123,871	3,887,880	3,920,693
Health Management	4,218,895	5,749,101	2,839,300	–
Administration	1,159,062	1,473,496	1,421,837	1,369,681
Professional services	907,127	816,500	1,004,715	633,549
Employee Assistance Program	674,601	881,723	874,492	868,345
Depreciation	241,464	277,519	229,351	195,375
Total operating expenses	382,547,832	445,329,317	403,865,254	390,906,279
Operating revenues over operating expenses	(33,279,896)	29,096,045	16,762,596	28,953,470
Nonoperating revenues (expenses):				
Investment income	7,099,139	9,104,038	5,928,270	2,492,453
Loss on disposal of furniture, fixtures and equipment	–	–	–	–
Other nonoperating expenses	–	–	–	–
Change in the net assets	(26,180,757)	38,200,083	22,690,866	31,445,923
Net assets, beginning of year	132,406,282	94,206,199	71,515,333	40,069,410
Net assets, end of year	$ 106,225,525	$ 132,406,282	$ 94,206,199	$ 71,515,333

2004	2003	2002	2001	2000	1999
$ 281,657,137	$ 264,052,867	$ 222,987,803	$ 169,804,969	$ 108,821,820	$ 95,312,925
84,756,549	84,372,737	75,701,524	62,083,511	48,561,768	41,993,101
18,201,930	26,378,699	37,630,463	76,430,017	94,336,655	72,710,319
5,169,299	–	–	–	–	–
–	–	–	–	–	–
389,784,915	374,804,303	336,319,790	308,318,497	251,720,243	210,016,345
357,845,282	338,173,615	331,099,846	306,651,524	258,313,998	212,036,418
9,077,987	5,869,772	3,108,745	–	–	–
3,785,291	3,753,395	3,697,765	3,590,842	3,398,416	3,144,763
–	–	–	–	–	–
1,579,075	1,866,567	1,616,841	1,962,420	2,094,726	2,220,348
416,113	417,463	626,456	850,023	1,372,514	962,413
873,428	912,175	889,080	917,299	1,013,368	796,806
259,864	281,314	280,172	228,666	222,917	274,921
373,837,040	351,274,301	341,318,905	314,200,774	266,415,939	219,435,669
15,947,875	23,530,002	(4,999,115)	(5,882,277)	(14,695,696)	(9,419,324)
765,034	668,168	968,329	2,157,472	2,125,779	2,124,487
(24,050)	–	(1,722)	(5,101)	(745)	(9,018)
1,220	(7,460)	–	–	–	–
16,690,079	24,190,710	(4,032,508)	(3,729,906)	(12,570,662)	(7,303,855)
23,379,331	(811,379)	3,221,129	6,951,035	19,521,697	26,825,552
$ 40,069,410	$ 23,379,331	$ (811,379)	$ 3,221,129	$ 6,951,035	$ 19,521,697

SCHEDULE OF NET ASSETS BY COMPONENT
Fiscal Years 2003 through 2008

	2008	2007	2006	2005	2004	2003
Net assets:						
Investment in capital assets, net of liabilities	$ 447,943	$ 400,575	$ 337,958	$ 371,501	$ 429,318	$ 589,457
Unrestricted	105,777,582	132,005,707	93,868,241	71,143,832	39,640,092	22,789,874
Total net assets	$ 106,225,525	$ 132,406,282	$ 94,206,199	$ 71,515,333	$ 40,069,410	$ 23,379,331

Note: Due to reporting format changes prescribed by GASB Statement 34, only fiscal years 2003-2008 are presented.

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STATE MEMBERSHIP ENROLLED IN MCHCP

Subscribers & Dependents

Ten Years Ended
June 30, 2008

Age	ACTIVE Female	ACTIVE Male	COBRA Female	COBRA Male	DISABLED Female	DISABLED Male	RETIREES Female	RETIREES Male	SURVIVORS Female	SURVIVORS Male	VESTED Female	VESTED Male	TOTAL
< 1	323	354	2										679
1 - 10	6,253	6,576	4	12	4	2	17	15	6	6	7	2	12,904
11 - 19	7,507	7,729	3	11	23	18	122	126	14	17	8	12	15,590
20 - 24	3,527	3,295	11	4	9	9	128	145	6	10	4	7	7,155
25 - 29	2,934	1,620	5	8			2	4				1	4,574
30 - 34	3,207	1,804	7		4		6	9		1			5,038
35 - 39	3,847	2,184	6	2	13	3	2	2			10	5	6,074
40 - 44	4,058	2,455	3	1	11	9	12	6		1	5	5	6,566
45 - 49	4,925	2,952	4	2	37	18	25	11	4	2	28	11	8,019
50 - 54	4,931	3,180	9	6	56	28	475	171	13	2	43	15	8,929
55 - 59	3,931	2,998	10	6	55	31	1,551	791	22	4	41	21	9,451
60 - 64	2,039	1,939	15	4	34	20	2,114	1,294	39	16	10	11	7,535
65 - 69	465	557			2	1	1,951	1,185	67	22	2	4	4,256
70 - 74	102	132			1	1	1,610	993	87	28			2,954
75 - 79	26	32				1	1,122	699	121	22			2,023
80 +	5	7					1,352	598	282	29	1	1	2,275
TOTAL	48,080	37,804	79	56	249	141	10,489	6,049	661	160	159	95	104,022

Year	Total Active	Total COBRA	Total Disabled	Total Retirees	Total Survivors	Total Vested	Total
2008	85,884	135	390	16,538	821	254	104,022
2007	84,585	189	424	16,154	820	267	102,439
2006	83,129	192	466	15,668	819	298	100,572
2005	86,459	185	515	15,351	800	296	103,606
2004	85,200	181	541	15,128	792	326	102,168
2003	88,123	249	676	13,392	765	336	103,541
2002	90,639	295	658	12,997	725	377	105,691
2001	91,610	363	668	12,408	703	505	106,257
2000	95,135	531	670	10,786	658	966	108,746
1999	94,571	626	629	10,122	613	1,162	107,723

Summary

Average Age:
37.73 years

Percent of Total:
Male - 42.59%
Female - 57.41%

PUBLIC ENTITY ENROLLED IN MCHCP

Subscribers & Dependents

Ten Years Ended
June 30, 2008

Age	ACTIVE Female	ACTIVE Male	COBRA Female	COBRA Male	RETIREES Female	RETIREES Male	TOTAL
< 1	4	2					6
1 - 10	79	21					100
11 - 19	105	33					138
20 - 24	68	18					86
25 - 29	96	24		1			121
30 - 34	94	14					108
35 - 39	110	21					131
40 - 44	118	17		1			136
45 - 49	178	27					205
50 - 54	203	30	5				238
55 - 59	202	34	1				237
60 - 64	147	21	4		4		176
65 - 69	49	10	1		5		65
70 - 74	20	4			7	1	32
75 - 79	3				1		4
80 +							0
TOTAL	1,476	276	11	2	17	1	1,783
2008	Total Active 1,752		Total COBRA 13		Total Retirees 18		Total 1,783

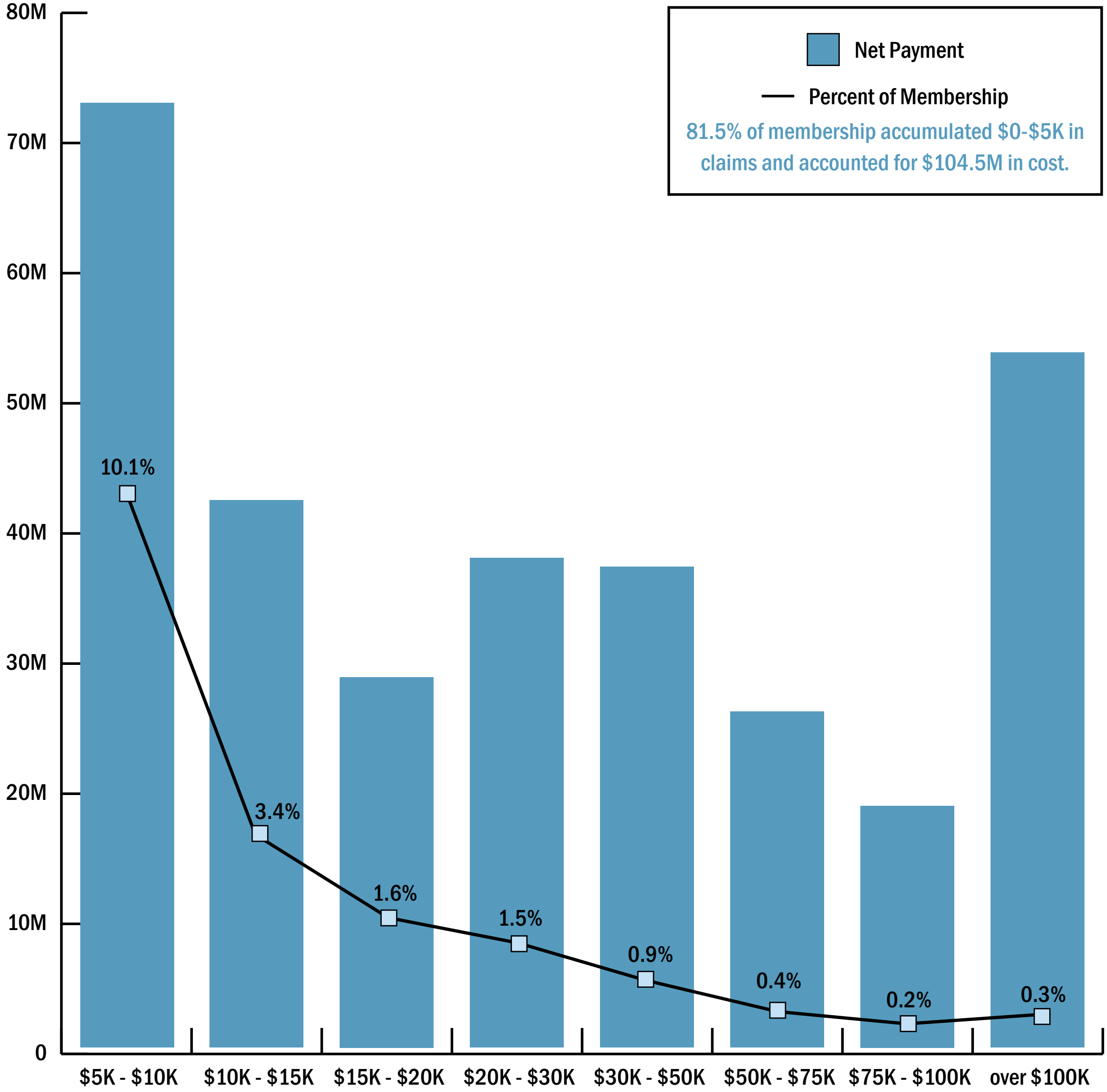
2007	1,851	18	11	1,880
2006	1,795	11	14	1,820
2005	1,654	5	24	1,683
2004	3,595	37	92	3,724
2003	4,900	47	122	5,069
2002	8,324	105	310	8,739
2001	15,217	183	525	15,925
2000	54,140	744	3,899	58,783
1999	47,151	652	3,525	51,328

Summary

Average Age:
42.15 years

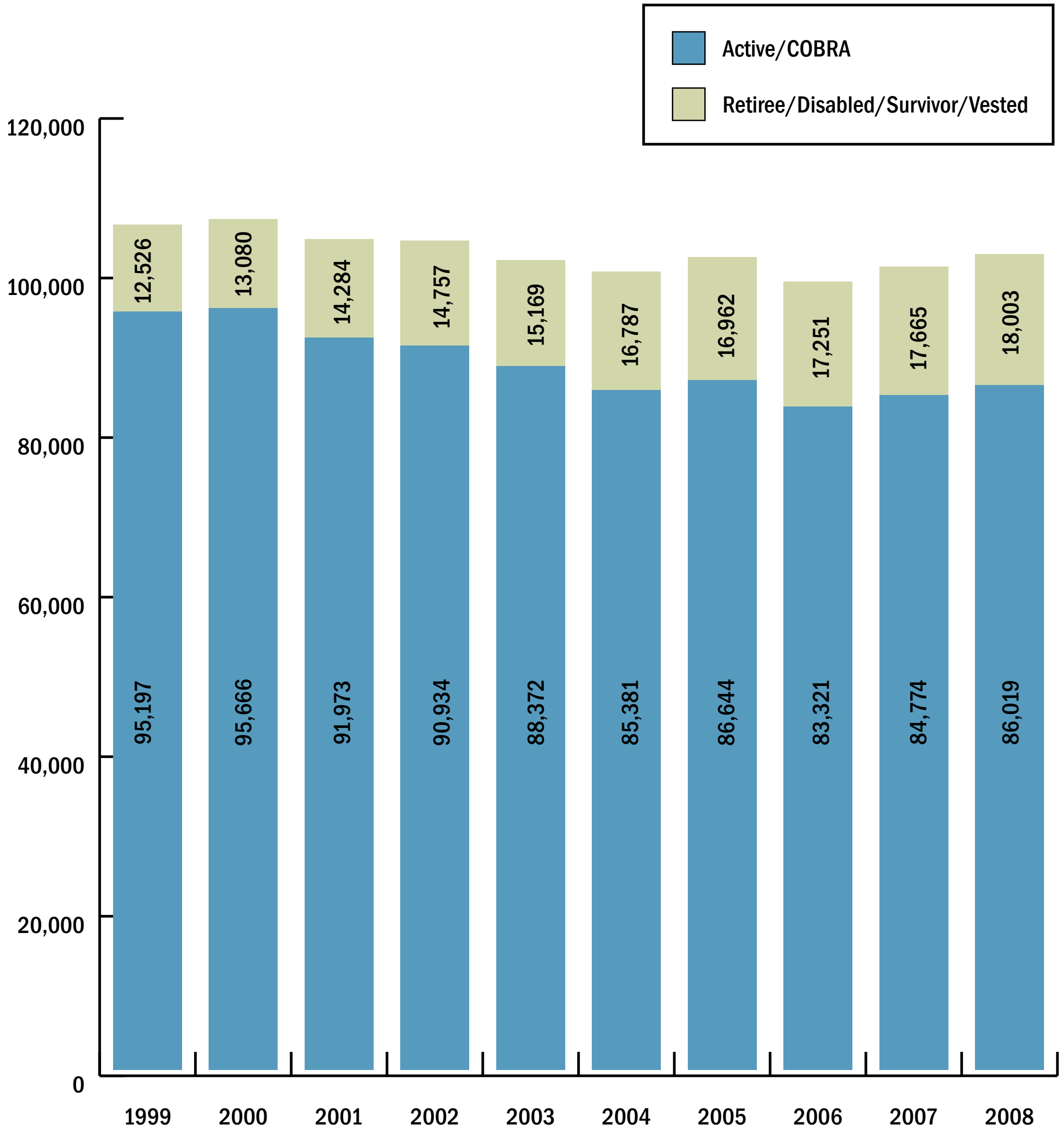
Percent of Total:
Male - 15.65%
Female - 84.35%

PAID CLAIMS DISTRIBUTION BY INDIVIDUAL
State Members
FY 2008



Activity is presented for actives and retirees.

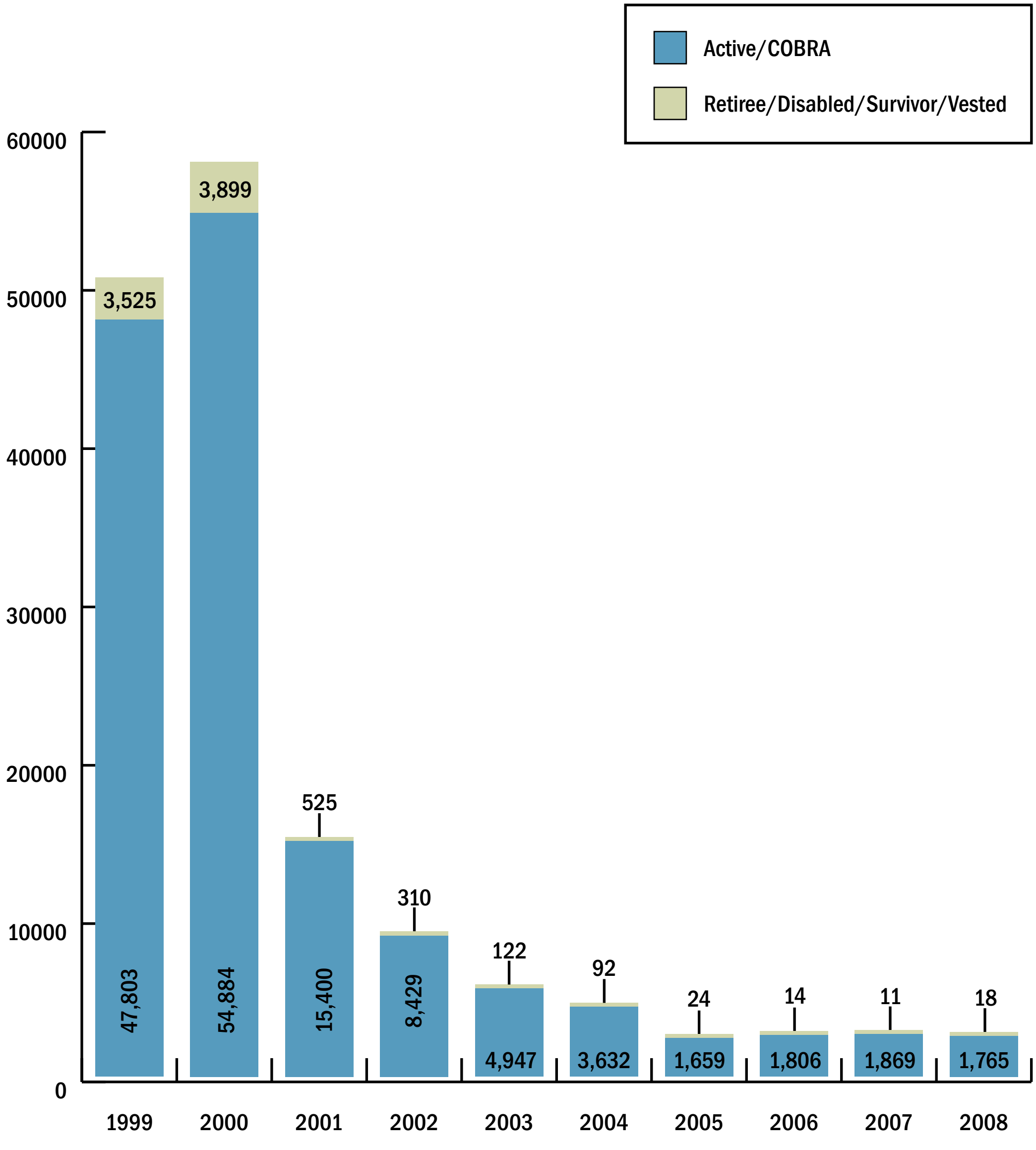
ENROLLMENT DISTRIBUTION
State Plan Demographics
FY 2008



ENROLLMENT DISTRIBUTION

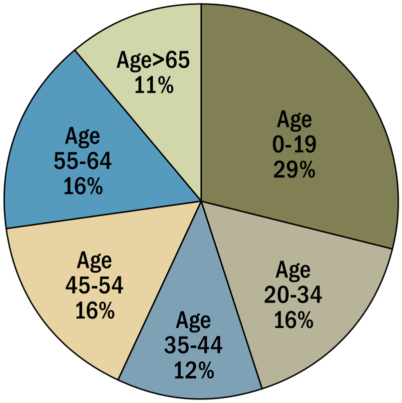
Public Entity Plan Demographics

FY 2008

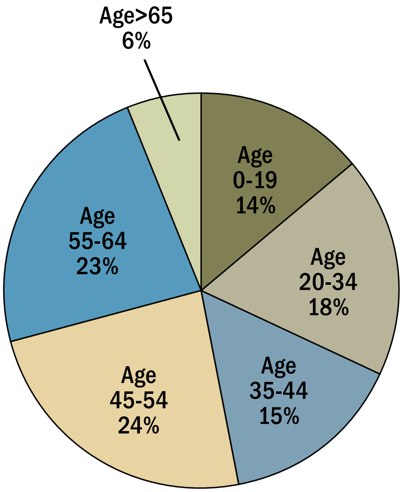


PLAN DEMOGRAPHICS

State Plan Demographics
FY 2008



Public Entity Plan Demographics
FY 2008

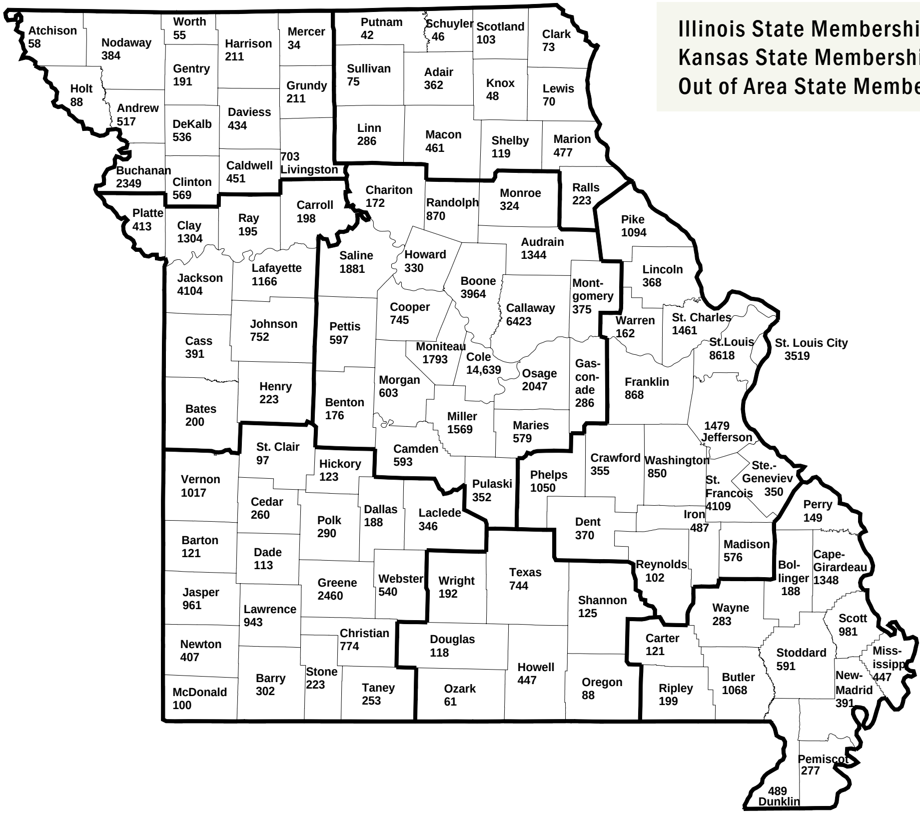


MEMBERSHIP BY COUNTY

State Members

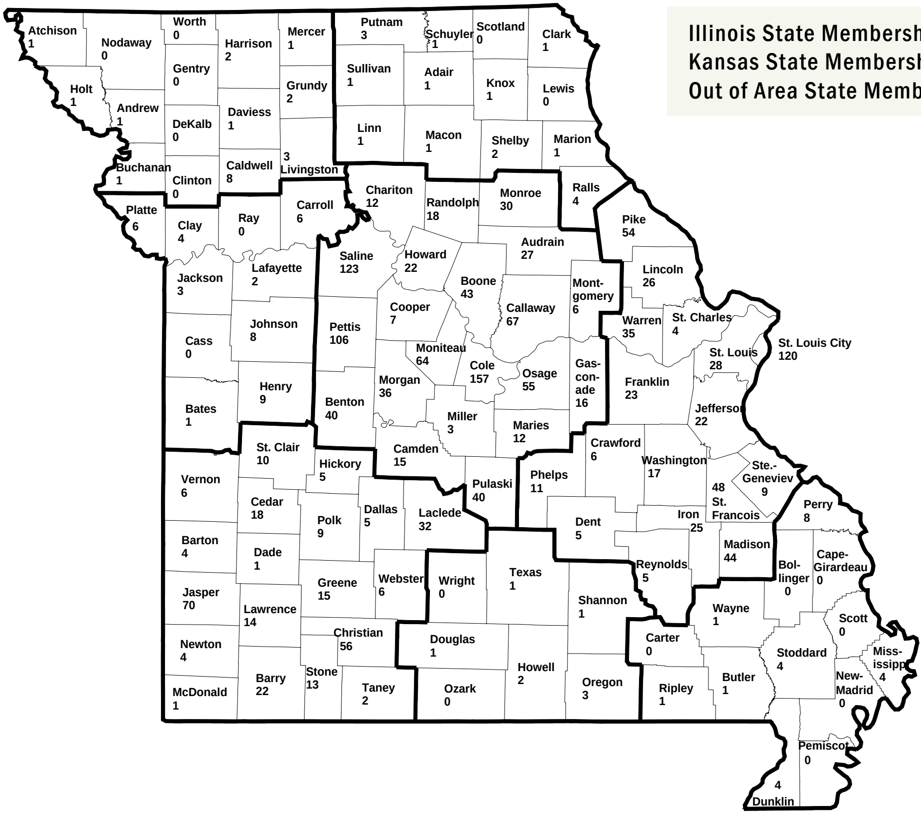
June 30, 2008

Illinois State Membership:	864
Kansas State Membership:	597
Out of Area State Membership:	1,134



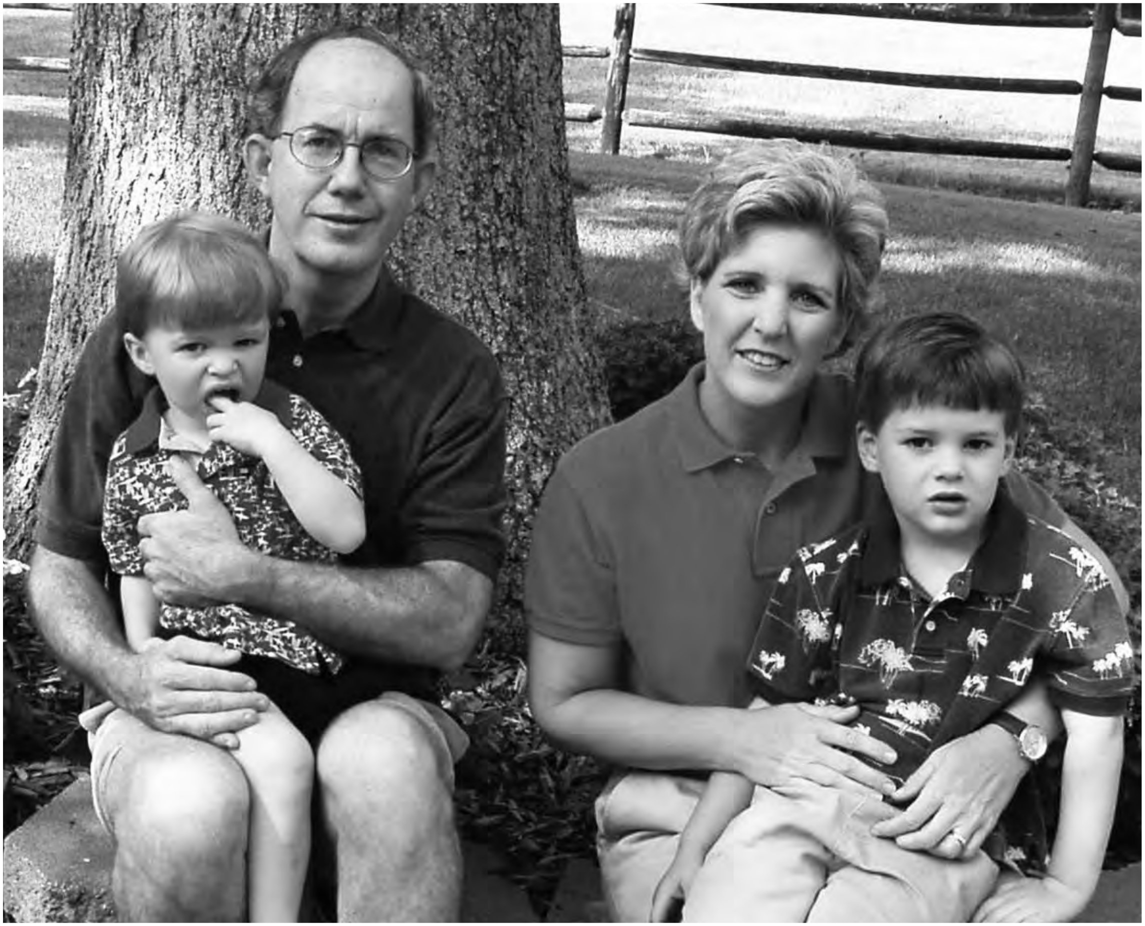
Public Entity Members

June 30, 2008



Illinois State Membership:	0
Kansas State Membership:	0
Out of Area State Membership:	0

Photo courtesy of Noreen Hyslop, Daily Statesman, Dexter, MO



In Memory of Michael Keathley

"Mike was a great person to work with and he always had the best interests of our members in mind. He was especially effective in dealing with difficult issues as he was able to quickly grasp the key concepts and make very difficult but important decisions."

Ron Meyer
Executive Director

"Mike was a fantastic board member as he quickly divined any facts pertinent to the issue. He also possessed that rare combination of a brilliant mind paired with common sense."

Jan L. Jackson
Chief Counsel

I was honored to have worked alongside Mike in financial and budget for the MCHCP. Mike's passion and commitment for excellence was exemplified in his work and personified in all who knew him.

Stacia G. Fischer
Chief Fiscal Officer

Mike was especially adept at looking at situations from varied perspectives; always considering how to best serve members of MCHCP while being prudent with state taxpayers money.

Grace Rogers
Director of Customer Support

"My direct involvement with Mr. Keathley was limited during his tenure on the MCHCP Board of Trustees; however, he struck me as a man of integrity, an astute fiduciary who served the Plan and taxpayers of this state very well."

Lorraine Mixon-Page, SPHR
Director of Human Resources

M·C·H·C·P

MISSOURI CONSOLIDATED
HEALTH CARE PLAN